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Agricultural Outlook Forum 2001



Speech Booklet 3

Thursday, February 22

For release 7:00 a.m., February 22

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8:20 COUNTERPOINT ON THE NEXT FARM BILL

How Well Has the 1996 Farm Bill Worked?

J.B. Penn, Senior Vice President, Sparks Companies, Inc.

10:30 AGRICULTURE'S STAKE IN WTO TRADE NEGOTIATIONS

U.S. Outlook on the Framework Proposal

Philip M. Seng, President and CEO, U. S. Meat Export Federation

1:15 NEW DIRECTIONS FOR A MARKET ACCESS STRATEGY: BILATERAL, REGIONAL, OR GLOBAL?

A Chilean Perspective on Bilateral and Regional Market Access Agreements

Gustavo A. Rojas, General Manager, National Farmers Federation - Chile

Economic Consequences of Multilateral Agreements

Loek Boonkamp, Head of the Agricultural Trade and Markets Division, OECD, Directorate for Agriculture

1:15 PUTTING THE RISK PROTECTION ACT OF 2000 TO WORK

The New Crop Insurance Reforms

Kenneth D. Ackerman, Counsel: Olsson Frank and Weeda

Applied Marketing Strategies

Scott H. Irwin, Darrel L Good, and Joao Martines-Filho

Crop Insurance Update

Michael Connealy, President and CEO, Rural Community Insurance Services

1:15 ACHIEVING SUSTAINABLE RURAL DEVELOPMENT

Organizing Small Farmers To Exploit Marketing Opportunities

Johnny L. Flowers, Chairman, ALA-TOM RC&D Council and Norman L. Burton, ALA-TOM RC&D Coordinator

1:15 FOOD PRICE BRIEFING

The Outlook for Food Prices in 2001

Annette L. Clauson, Agricultural Economist, Economic Research Service, USDA

3:30 WILL E-COMMERCE RENOVATE THE AGRICULTURAL MARKETPLACE?

Who Wins and Loses, and How Will E-Markets Affect Rural America?

LeeAnn E. Moss, Assistant Professor of Agribusiness Management, Department of Agricultural, Environmental, and Development Economics, Ohio State University



How Well Has the 1996 Farm Bill Worked?

J. B. Penn

Agricultural Outlook Forum 2001

U.S. Department of Agriculture



Washington, DC

February 22, 2001



Looking Through the Fog

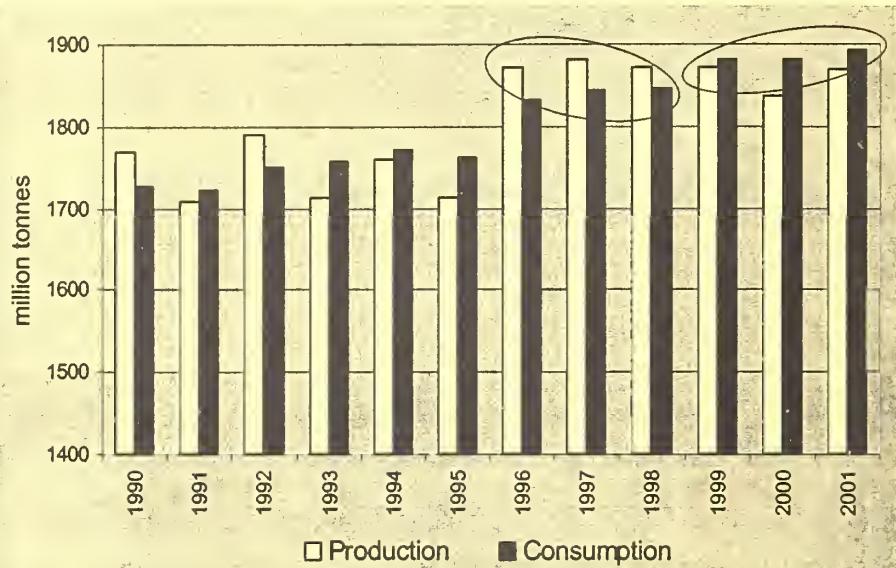
- Partisan politics dominated economic environment since passage of FAIR Act
- Public perception of Act has been shaped almost entirely by politics
- Act heavily criticized - blamed for low prices, other ills of the farm sector - But, major features widely popular - proposed for continuation
- Today's task: How to explain the disparity?
Answer lies in economics of the sector.

Review of 1990s Economic Performance

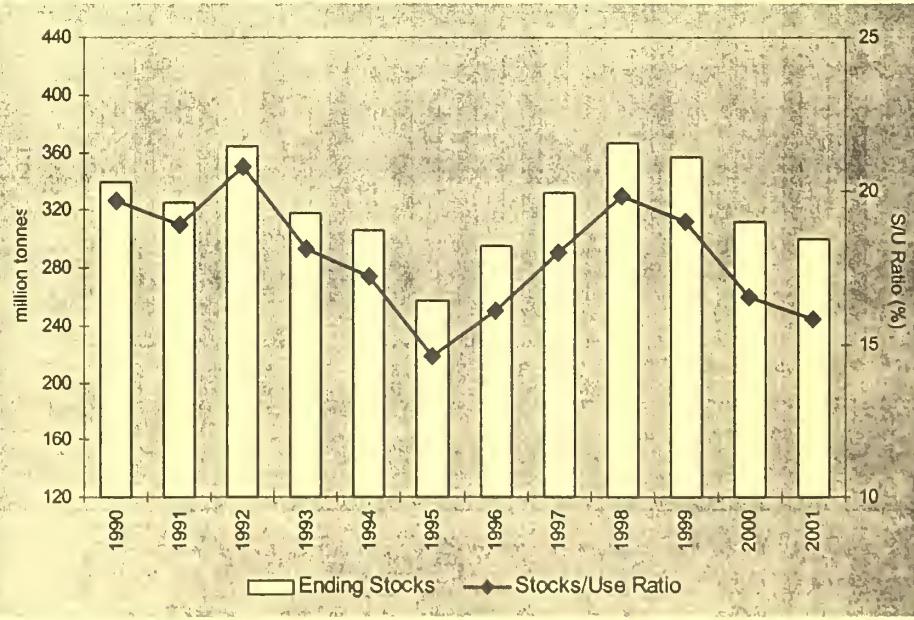
- Prolonged period of global economic growth - persistent growth in food demand
- Sporadic adverse weather reduced supplies
- Result: empty bins - record high prices

- FAIR Act passed in this boom time - continued evolution begun in 1985
 - Ended old program strictures
 - Began assured payments
 - Continued marketing loan program
- Farmers worldwide responded to high prices - supplies grew quickly - 1996, 1997, 1998
- At same time, economic shock occurs - important regional market collapses - spreads to other regions - demand slumps - S/U imbalance worsens - stocks build, prices fall

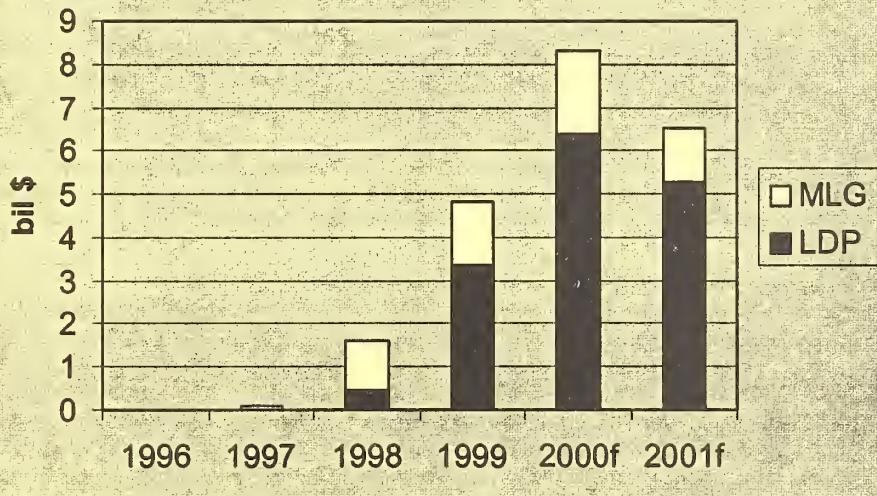
World Grain Production/Consumption



World Grain Stocks/Use



- Marketing Loan Program (guaranteed prices) come into play as a “safety net”



- Politics intensifies before 1998 election
 - Farm “crisis” talk begins
 - First ad hoc transfers authorized - \$5.9 bil.
 - And again in 1999 (\$9.3 bil.) and 2000 (\$7.1 bil.)
- A “disconnect” becomes apparent
 - Low prices persist - FAIR Act criticism intensifies
 - Yet: acreage/output grow
land prices/cash rents increase
sector balance sheet strengthens

- What explains this? Why no response to low prices?
 - Marketing loan program and farm sector structure
 - Loan rate levels relative to variable costs of commercial producers
 - Extra payments (\$22 bil.) “icing on the cake”
- Commercial farms (\$250k+ sales)
 - Higher yields - lower unit costs
 - Higher realized prices
 - Have wider margins
 - Continue apace - maintaining downward price pressure

- Lower prices used as justification for more federal assistance - circularity
- Quandry - how to end the cycle? How to define future policies?

- How well has the 1996 Farm Bill worked?
 - Depends on your concept of the bill
 - Direct (decoupled) payments - full flexibility
 - Guaranteed prices - no supply controls
 - Performance is explainable by economics
 - Analysis reminds us - FAIR Act still a “one size fits all” approach - doesn’t reflect the structural disparity of the sector
 - Probably now positioned to define a commercial ag/food policy apart from rural development/other policy



How Well Has the 1996 Farm Bill Worked?

J. B. Penn

jpenn@sparksco.com

Agricultural Outlook Forum 2001

U.S. Department of Agriculture



Washington, DC

February 22, 2001





USDA Agricultural Outlook Forum 2001

February 22-23, 2001
Arlington, Virginia

Before I address the substantial topic of this speech, let me say how pleased I am to be here in Washington at the USDA's Outlook Forum 2001.



Philip M. Seng

President
International Meat Secretariat
&
President and Chief Executive Officer
U.S. Meat Export Federation

I am honored to be associated with such an esteemed panel.



U.S. Outlook on the Framework Proposal

I have been asked to comment on the U.S. Framework Proposal from the perspective of not only the International Meat Secretariat (IMS), that is comprised of over 40 countries ranging from less developed, developing, and developed, but also from the perspective as the head of the USMEF.

First, I want to make it clear to all of our international trading partners that the U.S. industry wholeheartedly supports the U.S. Framework Proposal presented in Geneva last June.

The Advisory Committee for Trade Policy and Negotiations (ACTN), the Agriculture Policy Advisory Committee (APAC) and the Agriculture Technical Advisory Committee (ATAC) have all devoted considerable time and input into the document.

It's my conviction that the U.S. framework meets with the noble principles of the WTO:

- Open Markets
- Non-discrimination
- The Rule of Law, Not Power
- Transparency



The Comprehensive Proposal

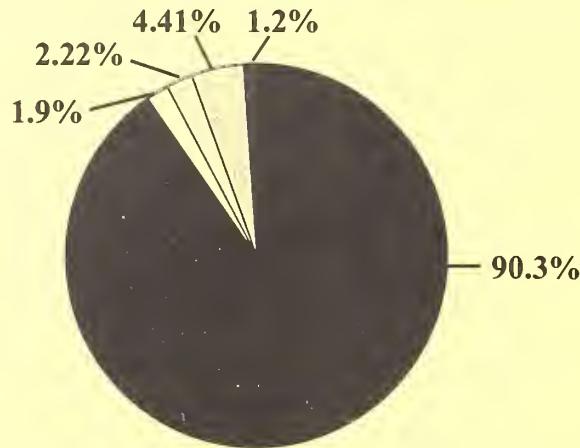
- Export competition
- Domestic support
- Market access
- Special and differential treatment
- Food security
- Sectoral initiatives

This slide shows the proposal's six primary elements.

From the industry perspective, I will elaborate briefly on each of the six major areas of the proposal. I also want to emphasize why it is vital to launch the next Round of the WTO ministerial in Doha, Qatar in November.



Export Competition



■ EU □ Rest of World □ U.S. □ Switzerland ■ Norway

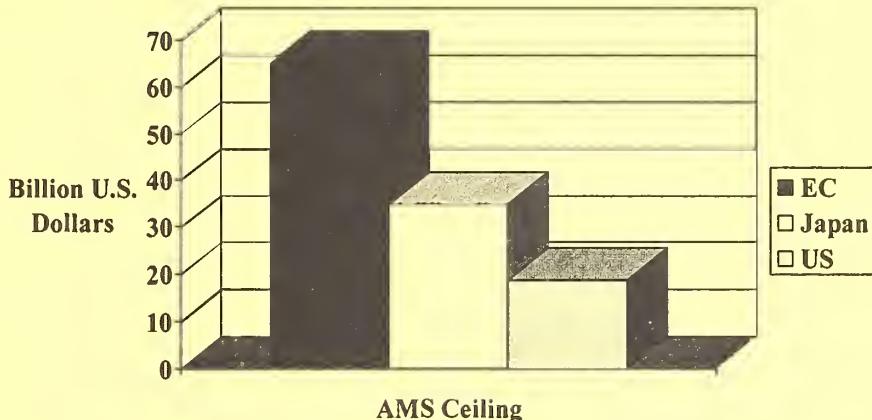
This chart clearly depicts the egregious levels of export restitution of Europe. Over 95% of the world's export subsidies are attributed to Europe.

In September of last year I met with the Brazilian Foreign Minister, Luiz Felipe Lampreia. He stated that the EU subsidies alone cost other non-EU countries USD 75 billion a year. Put another way, he indicated that if it were not for those subsidies, the rest of the world's entire export growth would increase by 75 billion USD.

The Europe subsidy levels are unsustainable and unethical given the realities of today's world.



Trade Distorting Domestic Support Ceilings



The chart illustrates that three countries - EU, Japan and the U.S. - account for USD 120 billion in annual support. However, what is even more shocking is that annual support in all OECD countries (Organization for Economic Cooperation and Development) totaled USD 361 billion in 1999. This is double the value of total agricultural exports from all non-OECD countries.

Product support across all OECD countries was 40% of the value of total OECD agricultural production. The OECD estimates that OECD countries farm support is estimated to cost the developing countries about USD 20 billion a year. OECD countries can no longer afford levels of support and the developing world can no longer afford to lose the trade.

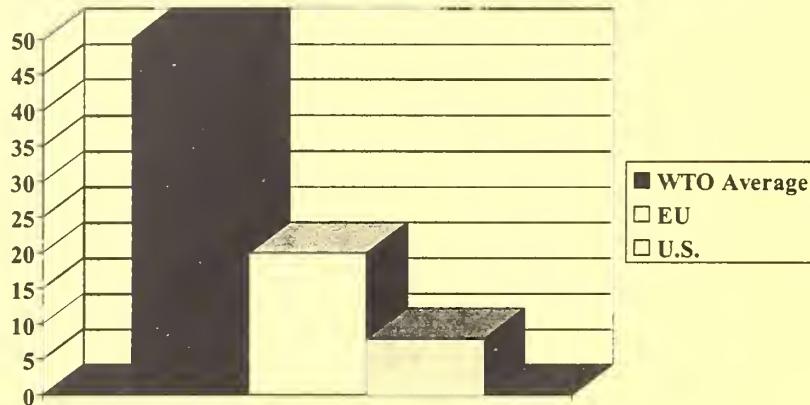
When looking at export and domestic subsidies together it is clear that the failure of agriculture to be covered in prior Rounds has allowed agricultural trade to lag far behind reform as evidenced in the manufacturing sector.

The apparent slowdown in the world economy makes it even more vital that the new Round commence ASAP.



Market Access

Restrictive import barriers hamper agricultural Average bound agricultural tariffs after UR reduction



Let's put these percentages into context by conducting a simple comparison with the manufacturing industry. Average import tariffs on manufactured goods fell from 40% to 4% in the second half of the 20th century.

This opening up of borders allowed the volume of industrial trade to grow by a factor of 17 over the same period, and provided a substantial contribution to a six-fold increase in world GDP. The increase in global output in turn translated into a doubling of world per capita incomes. By contrast, the growth in agricultural trade over the same period was much more modest - rising by a factor of only 6.

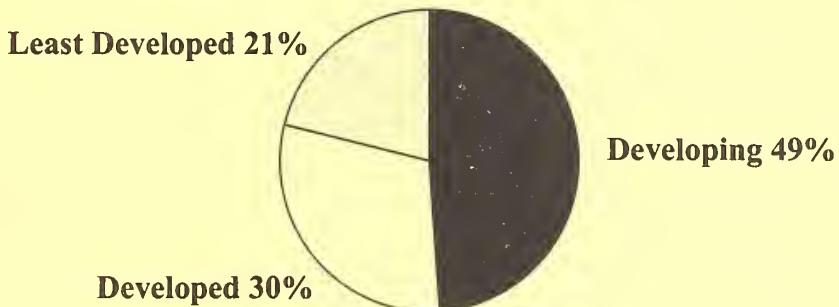
Indeed it is interesting to note that average bound tariffs of 40% to 50% on agricultural products are at the same level as bound tariffs were 50 years ago on industrial/manufacturing products.

Thomas W. Hertel, Director, Center for Global Trade Analysis Purdue University, in 1999 estimated that the potential gains from agricultural liberalization are estimated to be as high as the potential gains from further industrial trade liberalization. Clearly, agriculture has the most to gain in the next Round.



Special Treatment for Developing Countries

WTO Membership



This chart is most revealing: 70% of the WTO membership is in the developing or least developed category.

According to World Bank estimates, approximately 1.2 billion people live on less than a dollar a day. Nearly 3 billion people, or half of the world's population, get by on less than \$2 a day.

Estimates in Africa alone show that it will need to achieve annual growth of 8% in order to meet the internationally agreed target of halving the incidence of extreme poverty by 2015. Eight percent (8%) would seem impossible because this year the OECD projects 3% growth for OECD countries and 4% at best for non-OECD countries. The gap between the rich and poor countries is getting wider.

Among the developing countries, the best sign of support for trade is the clamor to get into the WTO, which really means to be a participant in international trade - 39 new countries since 1995 and 37 waiting to join. Why? Because there is a belief that global trade and investment can aid economic development by providing new products, new technologies and improved management skills.

Frankly, the developing world looks to trade as their avenue to prosperity from their abject poverty. Developing nations know first hand that much of the world is being reshaped by the spread of trade, which is now growing at twice the rate of world industrial output.



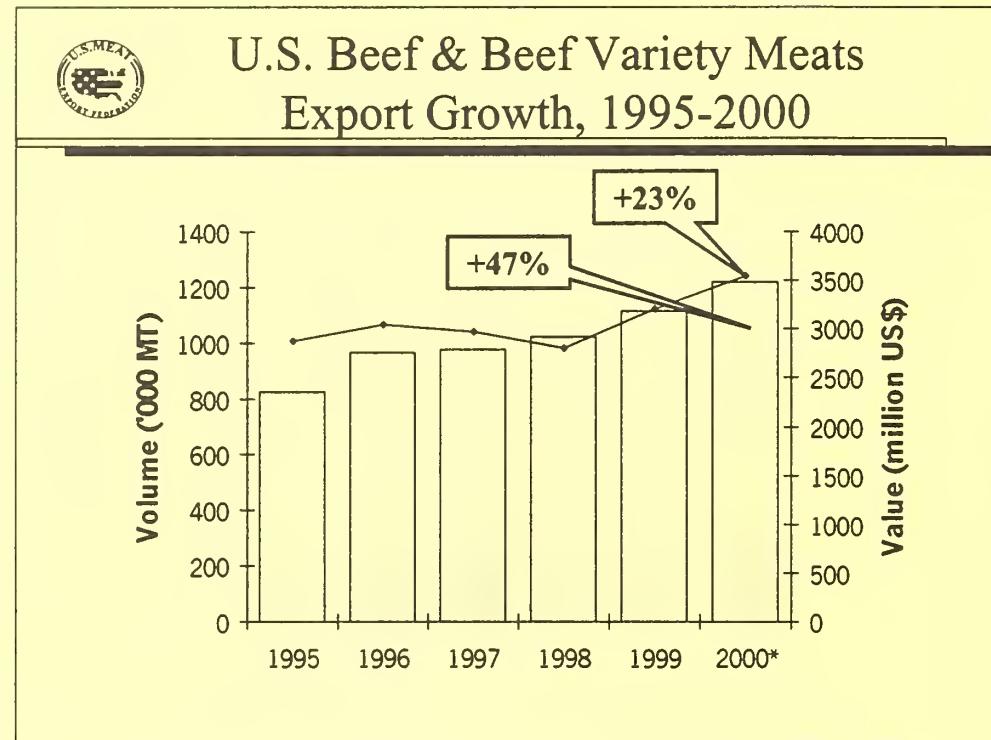
Food Security

- Renew commitment to food aid as described under the Uruguay Round “Decision on measures concerning the possible negative effects of the reform program on least-developed and net food-importing developing countries”
- Maintain food aid
- Continue the use of export credits
- Establish export reporting systems
- Strengthen disciplines on export restrictions



Sectoral Initiatives

- Engage in sector-specific negotiations beyond the general commitments



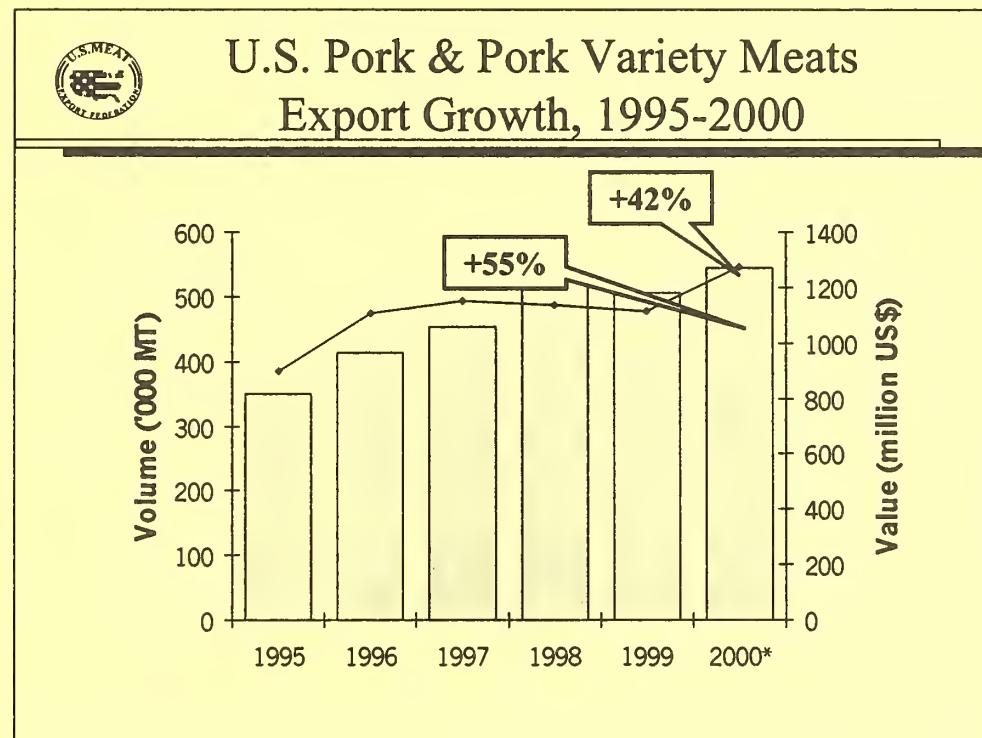
Specifically, why should the U.S. industry favor the new Round? Let me address you from the standpoint of the red meat industry. The results speak for themselves since the Uruguay Round was completed in November 1994.

US Beef and Beef Variety Meat Export Growth, 1995-2000

	Export Volume ('000 MT)	"Export Value(Million US\$)"
1995	826	2,872
1996	967	3,046
1997	977	2,968
1998	1,022	2,804
1999	1,114	3,204
2000*	1,218	3,546
Percent Growth	47%	23%

* USMEF estimate

source: USDA, USMEF estimates



US Pork and Pork variety Meat Export Growth, 1995-2000

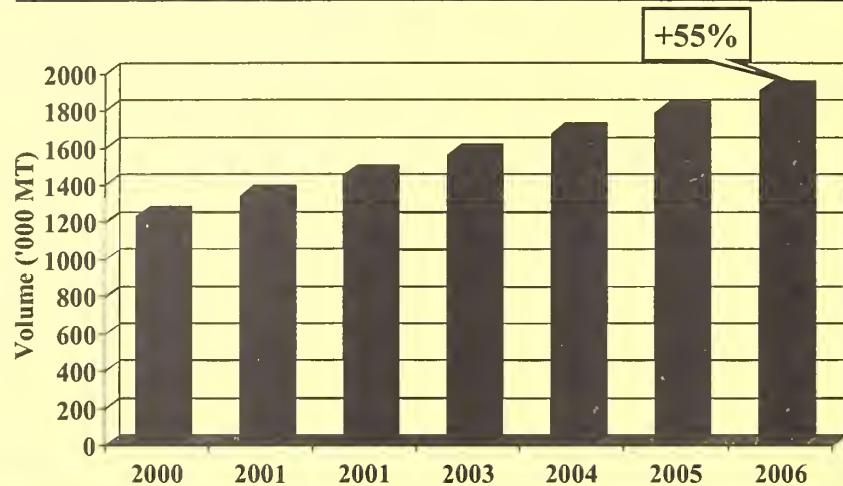
	Export Volume ('000 MT)	"Export Value(Million US\$)"
1995	350	897
1996	413	1108
1997	454	1153
1998	529	1135
1999	506	1114
2000*	544	1,275
Percent Growth	55%	42%

* USMEF Estimate

source: USDA, USMEF estimates



Beef & Beef Variety Meat Exports Forecast 2000-2006



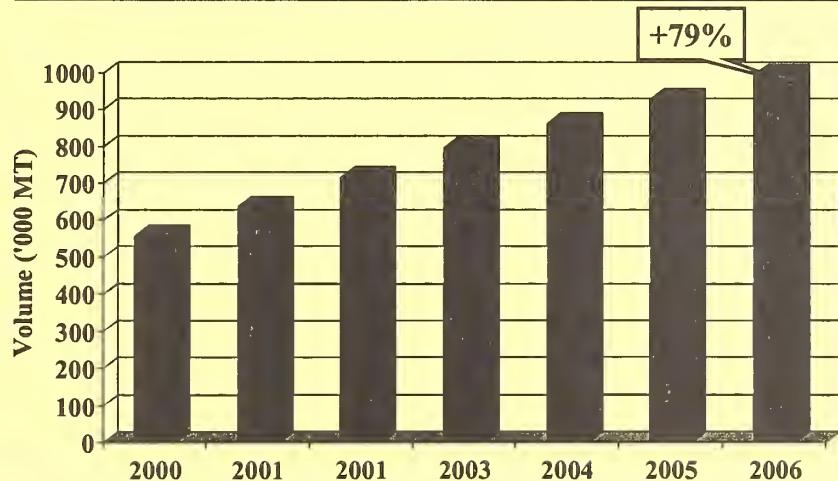
As compelling as those results were for beef and pork, here are what USMEF forecasts through 2006.

Beef and Beef Variety Meat Exports, Forecast 2000-2006

2000	1229.525
2001	1340.182
2002	1450.839
2003	1561.497
2004	1676.252
2005	1791.007
2006	1905.764



Pork & Pork Variety Meat Exports Forecast 2000-2006



Pork and Pork Variety Meat Exports, 2000-2006

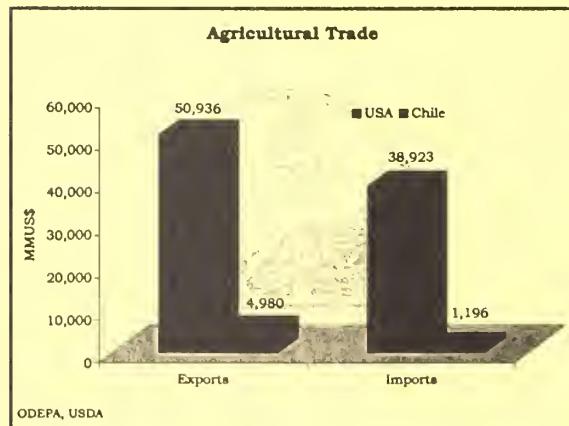
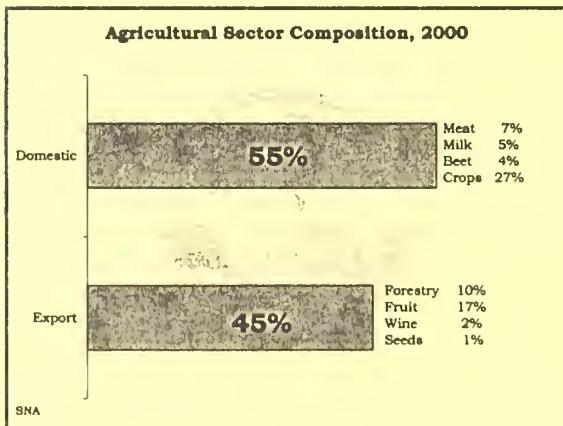
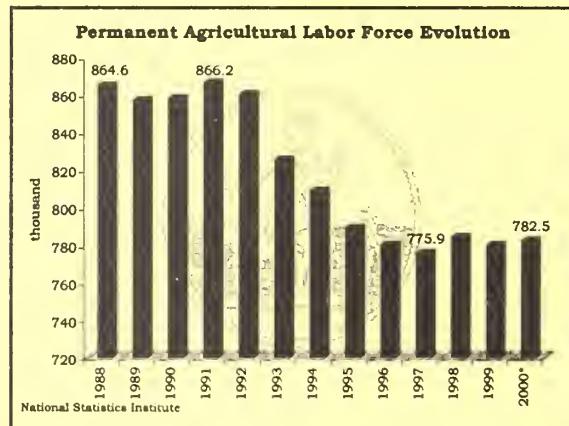
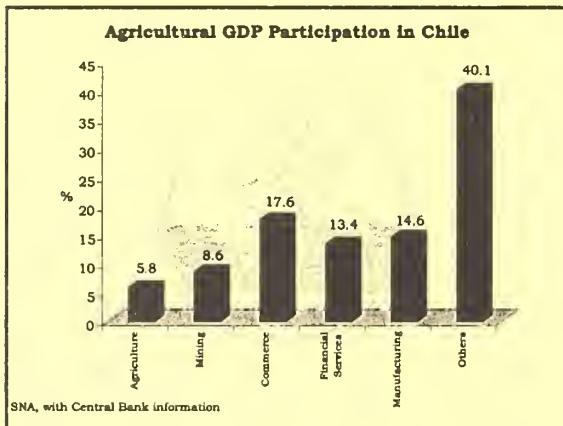
2000	556.082
2001	635.787
2002	715.492
2003	795.197
2004	861.926
2005	928.655
2006	995.386

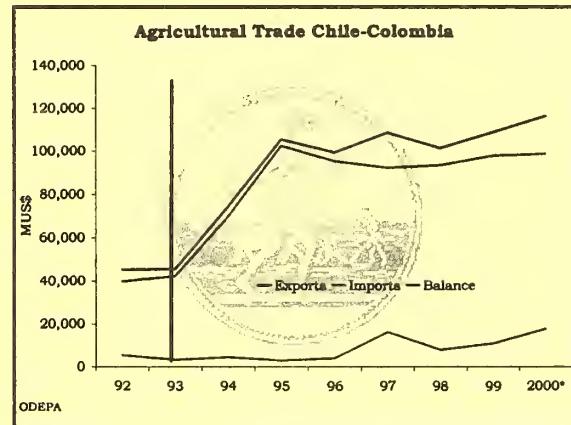
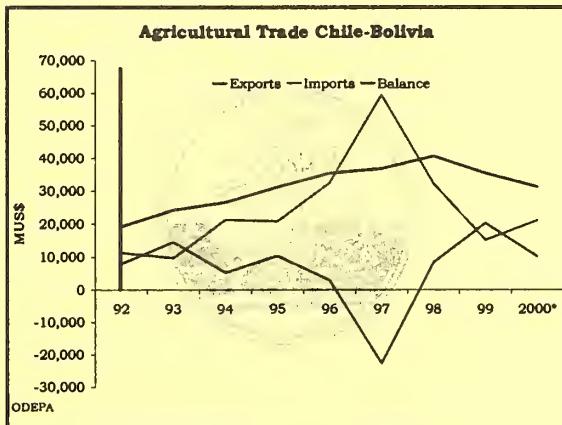
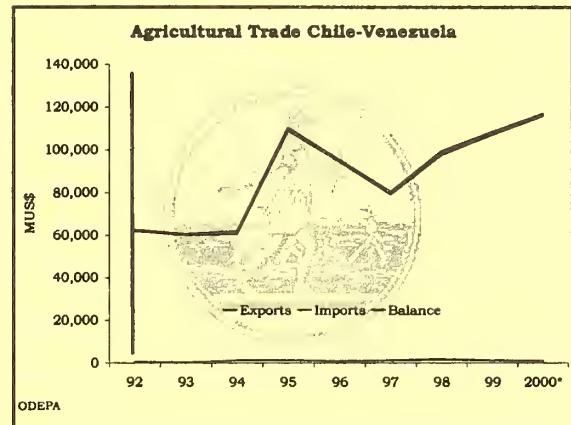
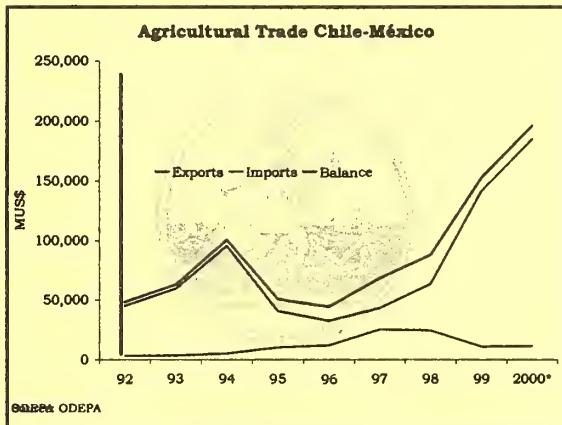
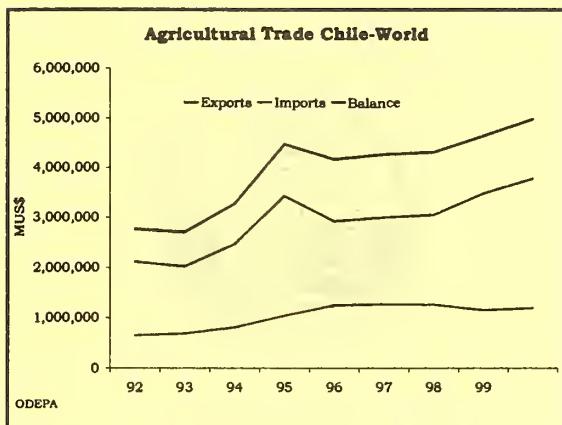
Note that these percentages for the future are higher than what we accomplished for the last five years.

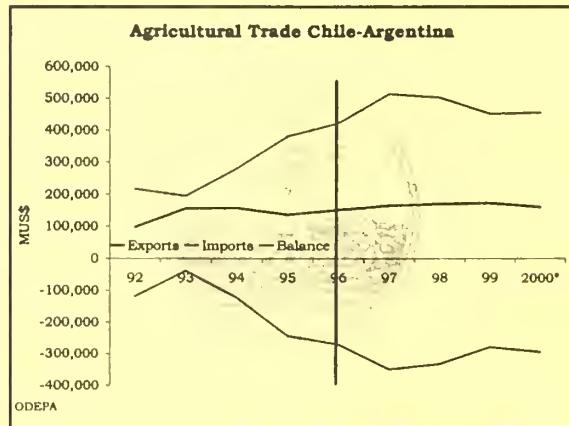
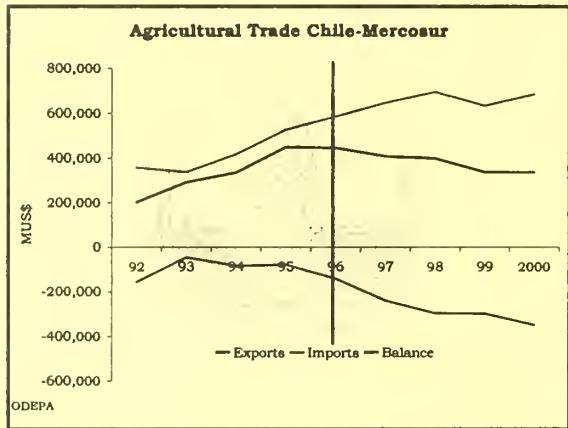
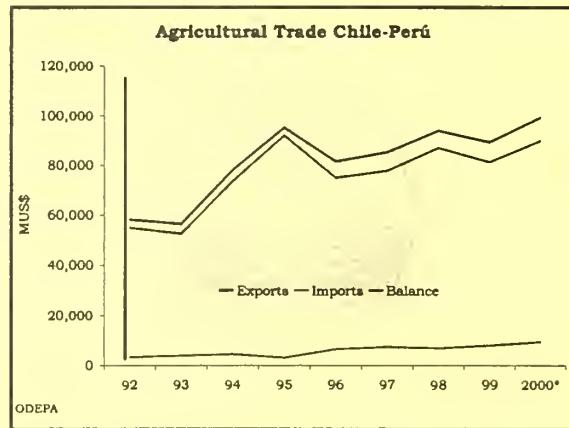
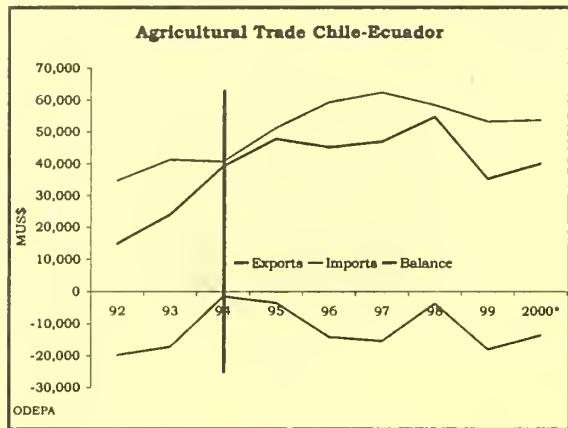
A CHILEAN PERSPECTIVE ON BILATERAL AND REGIONAL MARKET ACCESS AGREEMENTS

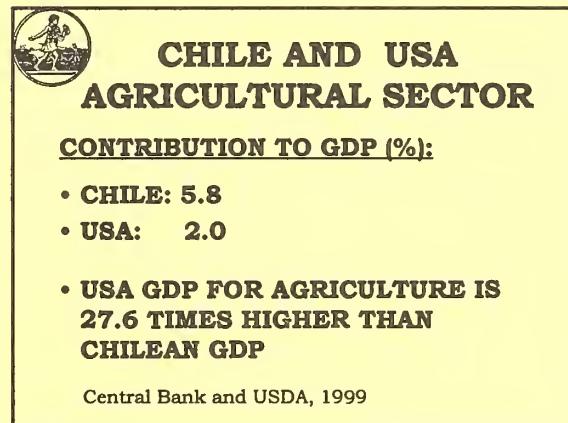
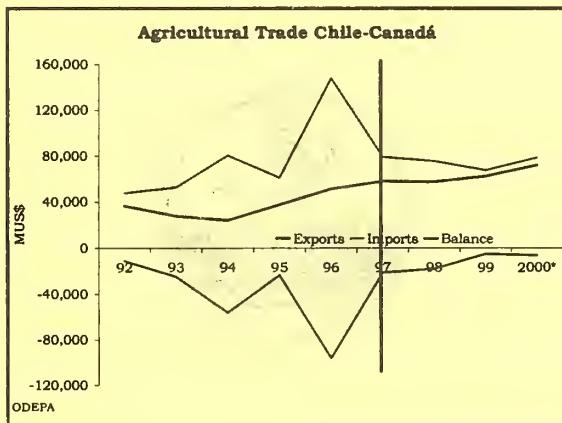
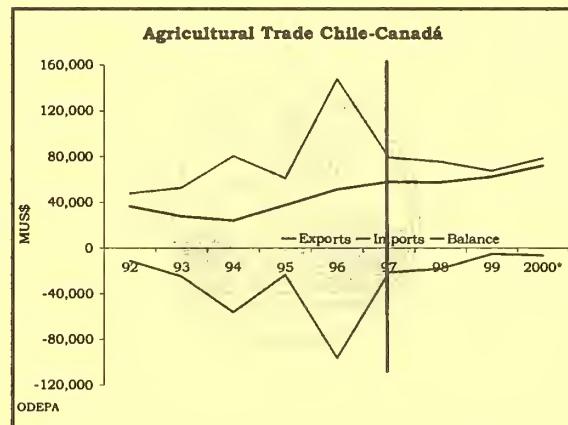
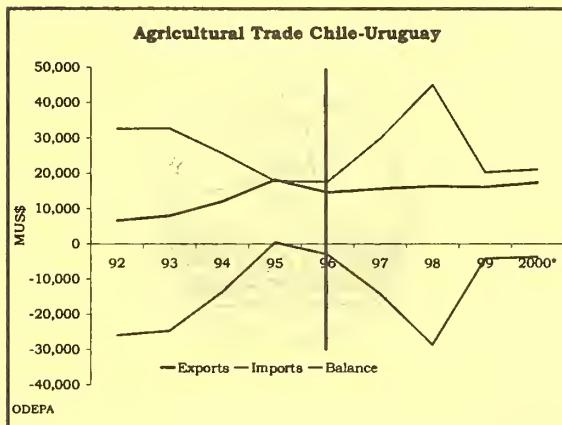
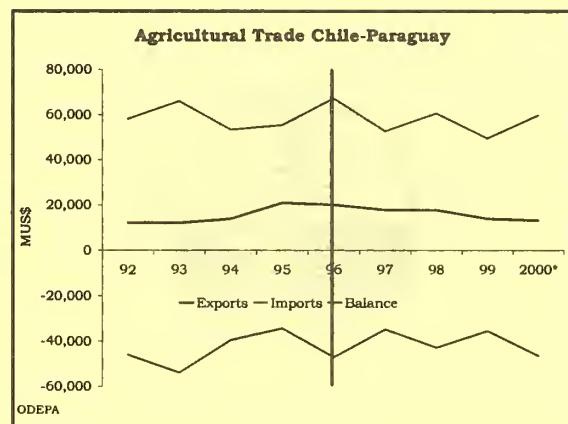
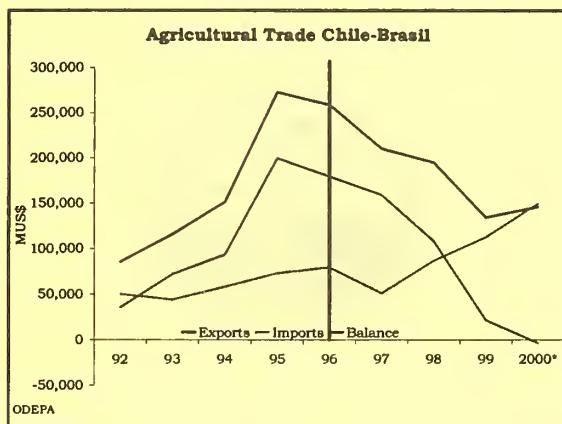
GUSTAVO A. ROJAS
GENERAL MANAGER
NATIONAL FARMERS
FEDERATION - CHILE

- Chilean Agriculture data
- Chilean Signed Agreements
- Chile vs USA
- Free Trade Agreement
- Conclusions











CHILE AND USA AGRICULTURAL SECTOR

- NUMBER OF FARMS (MILLIONS):
- CHILE: 0.3
- USA: 2.0

INE and USDA, 1999



CHILE AND USA AGRICULTURAL SECTOR

- EXPORTS (US\$ BILLIONS)
- CHILE: 5.0
- USA: 51.0

Odepa and USDA, 2000



CHILE AND USA AGRICULTURAL SECTOR

- IMPORTS (US\$ BILLIONS)
- CHILE: 1.1
- USA: 38.9

Odepa and USDA, 2000



CHILE AND USA AGRICULTURAL SECTOR

- CHILE EXPORTS TO USA (US\$ billions):
- 1.25 (2000)
- USA EXPORTS TO CHILE:
- 0.14

Odepa and USDA, 2000



CHILE AND USA AGRICULTURAL SECTOR

- CHILE EXPORTS TO USA US\$ 5.0
PER CAPITA
- USA EXPORT TO CHILE US\$ 9.3
PER CAPITA



CHILE AND USA AGRICULTURAL SECTOR

- CHILE REPRESENTS ONLY 2.9 %
FROM IMPORTS OF USA
- USA REPRESENTS 12.2 % FROM
IMPORTS OF CHILE

Odepa and USDA, 2000



CHILE AND USA AGRICULTURAL SECTOR

FISCAL BUDGET (1999) FOR AGRICULTURAL SECTOR:

- CHILE: US\$ 0.4 BILLIONS
- US\$ 27 PER CAPITA
- USA: US\$ 55 BILLIONS
- US\$ 220 PER CAPITA

Odepa and USDA



CHILE AND USA AGRICULTURAL SECTOR

FISCAL BUDGET FOR AGRICULTURAL SECTOR/ARABLE LAND IN USA (176.95 MM HAS):

- US\$ 310.82 PER HECTARES

IN CHILE:

- US\$ 202.12 PER HECTARE (1.98
MM HAS)

Odepa and FAO, 1999



CHILE AND USA AGRICULTURAL SECTOR

- FISCAL BUDGET FOR
AGRICULTURAL
SECTOR/IRRIGATED LAND (21.4
MM HAS):
- US\$ 2,570.09/HA
- IN CHILE:
- US\$ 222.22/HA (1.8 MM HAS)

Odepa and FAO, 1999



FREE TRADE AGREEMENT BETWEEN CHILE AND THE UNITED STATES OF AMERICA

THE AGRICULTURAL SECTOR



FTA: CHILE AND USA

GENERAL OBJECTIVES:

- TO CONFIRM TIES OF FRIENDSHIP
AND COOPERATION
- TO CONTRIBUTE TO ECONOMIC
DEVELOPMENT AND
COOPERATION
- TO CREATE A FREE MARKET FOR
GOODS AND SERVICES



FTA: CHILE AND USA

- TO REDUCE TRADE
DISTORTIONS
- TO ESTABLISH LAWS OF CLEAR
RULES FOR COMMERCIAL
TRADE



FTA: CHILE AND USA

- TO IMPROVE COMPETITIVENESS OF AGRO INDUSTRY PRODUCTS IN THIRD MARKETS
- TO CREATE NEW OPPORTUNITIES FOR EMPLOYMENT



FTA: CHILE AND USA

- TO BETTER COMPETE AGAINST COMMERCIAL BLOCKS OR COUNTRIES
- TO IMPROVE PROTECTION OF THE ENVIRONMENT



FTA: CHILE AND USA

- TO PROMOTE SUSTAINABLE DEVELOPMENT
- TO RECONFIRM THE WTO PRINCIPLES



FTA: CHILE AND USA

- AGRICULTURAL SECTORS OF BOTH COUNTRIES ARE COMPLEMENTARY AND NOT COMPETITIVE
- CHILE AND USA MUST COMPETE FAIRLY IN INTERNATIONAL MARKETS



FTA: CHILE AND USA

- USA IS LOSING OPPORTUNITIES WITHOUT FTA
- AGRICULTURAL SECTOR IN CHILE IS COMPETITIVE AND TIME WILL ALLOW US TO ADAPT TO INTERNATIONAL CONDITIONS



FTA: CHILE AND USA

- CHILE DOES NOT SUBSIDIZE THE AGRICULTURAL SECTOR
- CHILE NEEDS USA INVESTMENTS TO IMPROVE COMPETITIVENESS
- CHILE AND USA HAVE SENSITIVE AREAS TO BE PROTECTED



FTA: CHILE AND USA

- CHILE HAS SIGNED FTA WITH 7 COUNTRIES AND IS STARTING NEGOTIATIONS WITH EU, SOUTH KOREA AND CENTRAL AMERICA.
- PRELIMINARY DISCUSSIONS WITH NEW ZEALAND AND JAPAN.



FTA: GOALS

- LIBERALIZATION OF AGRICULTURAL TRADE
- REDUCTION, ELIMINATION AND HARMONIZATION OF SANITARY AND PHYTOSANITARY MEASURES (SPS)
- ELIMINATION OF NON-TARIFF BARRIERS



FTA: GOALS

- HARMONIZE AGRICULTURAL CLASSIFICATION AND DEVELOPMENT OF GRADING STANDARDS
- ELIMINATION OF EXPORT SUBSIDIES



FTA: GOALS

- ENCOURAGE THE USE OF DOMESTIC SUPPORT PROGRAMS THAT ARE NOT TRADE-DISTORTING
- ENCOURAGE EVERY COUNTRY TO EFFECTIVELY ENFORCE THEIR OWN ENVIRONMENTAL AND LABOUR LAWS



FTA: CHILE AND USA

SOME CONSIDERATIONS:

- FOR A FAIR TRADE OF PRODUCTS, CHILE PROPOSES TO DIFFER LIMITED TARIFF REDUCTIONS FOR SENSITIVE PRODUCTS.



FTA: CONSIDERATIONS

- USA MUST GUARANTEE THAT SUBSIDIZE PRODUCTS WILL NOT DISPLACE CHILEAN PRODUCTS IN THIRD MARKETS
- ELIMINATION OF SUBSIDIZE PRODUCTS FROM THIRD COUNTRIES FROM OUR MARKETS



FTA: CONSIDERATIONS

- SUPPORT MECHANISMS SHOULD NOT AFFECT PRICES DIRECTLY
- CHILE AND CAIRNS GROUP PROPOSED A GRADUAL REDUCTION OF SUBSIDIES



FTA: CONSIDERATIONS

VERY IMPORTANT ISSUES:

- OPEN ACCES TO MARKETS
- ELIMINATE BARRIERS TO TRADE
- SIMILAR REQUIREMENTS FOR DISTRIBUTION AND RETAIL SALES THAN IN THE USA



FTA: CONSIDERATIONS

- INCREASING INVESTMENT
- CHILE AND USA NEGOCIATE TERMS CONSISTENT WITH OUR TRADE AGREEMENTS WITH TIRHD COUNTRIES



FTA: CONSIDERATIONS

FOREST SECTOR:

- VERY POSITIVE SITUATION IN FAVOUR OF CHILE.
- WE PROPOSE TO CONSOLIDATE GSP (GENERAL SYSTEM OF PREFERENCES)



FTA: CONSIDERATIONS

FRESH FRUIT AND VEGETABLE SECTORS:

- ALMOST FULL FREE COMMERCE.
- LOW TARIFFS FAVOR AMERICAN CONSUMERS OFF-SEASON.



FTA: CONSIDERATIONS

MEAT AND DAIRY PRODUCT SECTORS:

- NO ACTIVE COMMERCE UP TO NOW



FTA: CONSIDERATIONS

GRAINS, SUGAR AND SENSITIVE PRODUCTS:

- EVERY COUNTRY SHOULD MAINTAIN ITS OWN PROTECTIONS



FTA: SENSITIVE PRODUCTS

- VERY IMPORTANT TO CHILE, BUT USA SHOULD COMPETE WITH CANADA (WHEAT, LEGUMES); MERCOSUR (WHEAT, OIL, SOYBEANS, RED MEAT) AND NEW ZEALAND (DAIRY PRODUCTS)



FTA: CONSIDERATIONS

INDUSTRIAL SECTOR:

- CHILE FEARS NON-TARIF BARRIERS AND FTA SHOULD OPEN MORE OPPORTUNITIES



FTA: CONSIDERATIONS

FERTILIZERS; CHEMICALS; SEEDS AND MACHINERY:

- USA IS LOOSING GREAT OPORTUNITIES WITHOUT FTA



FTA: CHILEAN POSITION

- FIRST PRIORITY: CONTROVERSY SOLUTIONS
- NON-TARIFFS OR TECHNICAL BARRIERS TO COMMERCE
- TRANSGENIC CROPS



FTA: CHILEAN POSITION

- EXTREME AND IMMEDIATE LABOR AND ENVIRONMENTAL REQUIREMENTS COULD REPRESENT A PROBLEM FOR THE PRIVATE SECTOR IN CHILE
- ANTIDUMPING LAWS IN USA



FTA: CONCLUSIONS

- WE MUST SET A FREE TRADE AGREEMENT BASED ON SIMILARITIES BETWEEN BOTH COUNTRIES, ADDING MORE INCENTIVES TO EXPLORE NEW MARKETS AS A BLOCK, AND INCREASED COMPETITIVENESS FOR THE AGRICULTURAL SECTOR.



FTA: CONCLUSIONS

- ACCESS TO THE USA MARKET:
- EASY SOLUTION OF CONTROVERSIES IS A MUST
- CLEAR AND WTO COMPATIBLE STANDARDS



FTA: CONCLUSIONS

SOME SPECIFIC PROBLEMS:

- LABELING.
- RECOGNITION OF MEAT AND POULTRY INSPECTION SYSTEM.
- FOOD SAFETY REQUIREMENTS.
- QUALITY REQUIREMENTS.
- MARKETING ORDERS.



FTA: CONCLUSIONS

- INVESTMENT AND TECHNOLOGY
- CHILEAN AGRICULTURAL SECTOR HAS GREAT POTENTIAL AND NEEDS INVESTMENT AND TECHNOLOGY TO IMPROVE COMPETITIVENESS
- FTA SHOULD FACILITATE AND MOTIVATE REGIONAL INVESTMENTS



FTA: CONCLUSIONS

- IMPROVES AND FACILITATE CUSTOM PROCEDURES AND CERTIFICATION OF ORIGIN FOR AGRICULTURAL PRODUCTS

ECONOMIC CONSEQUENCES OF MULTILATERAL AGREEMENTS

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Introduction

The evaluation of trade policy reform in the context of the Uruguay Round Agreement on Agriculture (URAA) is an important part of the programme of work of the OECD Directorate for Agriculture. Recently, an extensive evaluation was finalised concerning the implementation of the URAA focusing on the three pillars of the Agreement, namely domestic support, export subsidies and market access. Another part of the trade analysis agenda is of a more forward looking nature and aims at evaluating the market impacts of further trade policy reform. It is in this context that we have recently finalised a number of studies looking at various export competition issues such as export subsidies and export credits. The focus of this paper is on this work of a forward looking nature. The first section will discuss what the impacts would be if the next round of multilateral trade negotiations a complete elimination of export subsidies were to be decided¹. The second section of this paper provides an evaluation of recent use in export credits, with the emphasis on the subsidy element of such credits and an assessment of market impacts if a multilateral agreement governing their use would be reached².

Export subsidies

Why are they a wasteful policy instrument?

Export subsidies are a market distorting trade policy. They distort trade flows because purchases by importers of any good which benefit from export subsidies are no longer determined by who is the most efficient and lowest cost export supplier of that good. Rather, imports will be sourced from whoever offers the lowest price, net of the official government subsidy. In addition to distorting *trade flows*, the use of export subsidies will also affect the *volume* of trade, which no longer will reflect competitive market conditions. Export subsidies are an essential element of certain support policies and are used to rid domestic markets from the surpluses these policies generate. Thus, in markets where export subsidies are used, it is not competitive prices which determine trade volumes but rather the amount of produce governments need to remove from domestic markets. But export subsidies may also impact *price variability* in world markets. When governments use export subsidies to stabilise domestic markets, this is in fact achieved by exporting domestic market instability onto the international market, increasing instability there. In addition the use of export subsidies is likely to grow as world market prices decline relative to domestic support prices. The addition of subsidised supplies to an already weakening market will reduce prices even further. This will increase the adjustment which needs to be made by more efficient and less supported suppliers to world markets, further adding to welfare losses.

Export subsidy reduction commitments

¹ A forward looking analysis of export subsidies in agriculture. OECD, December 2000

² An analysis of officially supported export credits in agriculture. OECD, December 2000

The wasteful and distorting nature of export subsidies was recognised by negotiating parties in the Uruguay Round of trade negotiations. As part of the Uruguay Round Agreement on Agriculture (URAA), it was therefore decided to reduce the use of export subsidies over the URAA implementation period. By the end of 2000, export subsidy levels in developed countries may not exceed volume and expenditure levels that are 21 per cent and 36 per cent respectively below those of the 1986-88 base period. In addition to these *multilateral* reduction commitments, the United States has also *unilaterally* decided under the 1996 FAIR Act to reduce the use of export subsidies under the Export Enhancement Program (EEP) to below the levels committed under the URAA. The annual limits on the maximum levels of EEP payments under the FAIR Act are capped such that the total allowed for the 1996 to 1999 period is US\$ 1.6 billion less than the US commitments under the URAA. This is nearly a quarter of total notified export subsidies in 1998.

Current and expected use of export subsidies

Despite these reduction commitments, the use of export subsidies remains substantial for certain commodities and countries. In 1998, the latest year for which complete notification data for OECD countries was available, the total value of export subsidies reached US\$ 6.6 bn. Almost 91 per cent of this originated in the European Union; Switzerland came second with 4.5 per cent and subsidies by the United States represented just over 2 per cent of the total. Of the OECD countries, only Canada, Iceland, Japan, Korea and New Zealand did not notify export subsidies in 1998. However, this does not reflect a 1998 WTO panel ruling under which the Canadian milk pricing scheme was judged to be inconsistent with the URAA export subsidy provisions. Nor does it take account of the 1999 WTO rulings that US Foreign Sales Companies are inconsistent with these provisions. Of the US 6.6 bn export subsidies paid in 1998, the largest share was paid on dairy products (30 per cent), followed by cereals (22 per cent), meat (19 per cent) and sugar (14 per cent). Export subsidies are paid on almost all agricultural commodities exported by OECD countries. Only oilseeds and oilseed products, tobacco and cotton received no such payments in 1998³.

Export subsidies also have the largest incidence on trade in dairy products. Total export subsidy notifications in 1998 represented some 25 per cent of global trade for butter and cheese and more than 40 per cent for skimmed milk powder. Close to 30 per cent of global pigmeat trade was affected by export subsidies, while these represented 10 to 14 per cent of global trade in wheat and coarse grains and 13 per cent for beef. However, if account is taken of the EU commitment not to use export subsidies for beef exports to Pacific markets, the share of subsidised exports on the volume of trade where the European Union does have access is much higher than that.

While export subsidy use has remained substantial in recent years, OECD estimates are for more limited use in the future, and indeed for levels of export subsidies for many commodities which are far below the final commitments under the URAA. These estimates are based on the latest OECD medium term projections for agricultural markets⁴. These projections assume that unilateral decisions not to use export subsidies will hold also for future years. Thus, US EEP payments on wheat and coarse grains are assumed to be zero over the medium term. The projections also suggest moderately rising commodity prices over the medium term from current low levels. These rising world prices, combined with lower support prices in the European Union under the Berlin Agreement of reform of the Common Agricultural Policy (CAP) and a weak Euro against the US dollar, leads to an elimination of the gap between EU and world prices

³ For a detailed analysis of the implementation regarding the three pillars of the URAA see: Market access, domestic support and export subsidy aspects of Uruguay Round Agreement on Agriculture - Implementation in OECD countries. OECD, December 2000

⁴ OECD Agricultural Outlook 2000-2005, OECD, May 2000.

for wheat and a reduction in that for other commodities. Thus, the European Union, the largest user of export subsidies, can increasingly export certain commodities without or with reduced use of such subsidies. Unsubsidised exports are possible for wheat and increasingly also for pigmeat and poultry. On the other hand, EU exports of coarse grains, beef and dairy products were expected to remain close to or at the volume limits at the time the above mentioned projections were made.

Market impacts of export subsidy elimination

The assessment of the market impacts of export subsidy elimination was done by comparing an alternative situation where no such subsidies were applied to projected baseline market outcomes where export subsidies were used within the limits of URAA. As new trade negotiations under the WTO are continuing, and their outcome is undecided, we had assumed that throughout the period covered by the baseline projections, export subsidy limits would be kept at their level in 2000, i.e. at the end of the URAA implementation period. The elimination scenario assumes that export subsidies will be eliminated in equal steps from 2001 to 2005. In these calculations we used the OECD's Aglink model, a partial equilibrium model of global agricultural markets.

In making the comparisons, it is important to remember the key outcomes of the baseline projections as discussed in the previous section. These show limited use of export subsidies in the baseline as unilateral decisions to not use export subsidies are assumed to continue and as the gap between prices in the European Union – the largest user of export subsidies – and world prices, expressed in Euros, is declining.

Another critical assumption in the assessment of market impacts is the policy response in countries where export subsidies are employed but will no longer be available in the scenario. As export subsidies are used as an instrument to maintain domestic market prices at support levels, other adjustments are required when they can no longer be used. These adjustments can be of a policy nature, and may include support purchases for storage by the government or supply controls. In the results present here, however, it has been assumed that domestic support policies will be reformed and internal prices will be allowed to fall below current support levels, to whatever extent is necessary to clear quantities once exported with subsidies. However, existing import barriers remain in place, so prices may not fall to world levels.

Against the background of the assumptions and projections presented above, the results of an export subsidy elimination remain fairly modest. The biggest impacts would be on selected domestic markets, where baseline projections suggested subsidised exports at or close to WTO limits. Thus EU dairy and beef prices fall substantially as surpluses at support price levels can no longer be exported with subsidies and support storage does not take place. The effects on internal wheat prices in the European Union are smaller and decline over time as unsubsidised exports are possible in the baseline projections. On the other hand, the impacts on coarse grain prices are larger as maize and barley remain less competitive compared to world prices. In general, Canadian milk prices decline by more than those in the United States as US dairy product exports represent a smaller share relative to the domestic market.

World price impacts depend on the importance of subsidised exports relative to total trade in the baseline projections, and also on the cross commodity effects of export subsidy elimination. Thus, world price impacts are fairly small for wheat and coarse grains. EU subsidised exports for these products are limited relative to total world trade while the projections show that unsubsidised exports become possible from 2003 onwards. In addition, export subsidy elimination leads to lower domestic livestock prices, with lower production and reduced feed demand as a consequence. This is increasing EU's grain export supplies at world prices, putting a cap on the increase in world prices. Compared with cereals, the world price impacts for dairy products are more substantial as the sum of subsidised exports from Canada, the United States and the European Union were important relative to total trade in the baseline.

Is it worth the bother?

The study discussed in this paper suggests that global effects of export subsidy elimination are relatively small and fall predominantly on certain commodities and domestic markets. The question can be thus be raised if elimination is worth the bother. The reply has to be yes. The analysis shows that the estimated results depend much on future world price expectations in a context where export subsidies continue to be used, on a continuation of unilateral decision not to use such subsidies and on the exchange rates between the currencies of countries which use export subsidies and the US dollar. It is clear that any change in the configuration of these conditioning factors can affect the results. Higher world prices than expected and certain exchange rate changes would further reduce the need for export subsidies in the future and make the effects of their elimination even smaller. But if the opposite were to happen, non-competitive exporters would be less likely to sell their products without subsidies and in other cases, the willingness to maintain unilateral decisions not to use them might be put into question. A multilateral agreement to eliminate export subsidies would therefore solidify the expected limited use of such subsidies. It would preclude a resumption of their use up to the existing URAA limits if market and trade conditions are less favourable in the coming years than those which are used as the yardstick to assess the impacts of their elimination.

EXPORT CREDITS

Use of export credits has increased

Export subsidies were identified in the URAA as one of the most widely used policy instruments which distort export competition. But there are other measures exporters can use to achieve competitive advantages in trade. One such instrument is officially supported export credits in agriculture. Officially supported export credits (hereafter, export credits) may offer an importer financial terms such that the total cost of acquiring the commodity is reduced below alternative, private market costs. As these policies may serve to effectively subsidise exports and to circumvent export subsidy limits, they were at issue in the negotiations leading up to the conclusion of the URAA. While they were not disciplined in the final Agreement, signatory countries undertook to continue negotiations towards an Arrangement which would govern their use. Such an Arrangement has not been reached as of today.

Participants to the Arrangement on Officially Supported Export Credits at the OECD provided access to confidential survey data over the period 1995 to 1998. Over this period of time, the total use of export credits by the Participants as a group increased from US\$ 5.5 billion in 1995 to US\$ 7.9 billion in 1998. The increase in 1997 and 1998 may in part be explained by the global financial crises in those years which may have made existing programmes more appealing. Nevertheless, it has to be recognised that of the total increase of US\$ 2.4 billion over this period, more than half (US\$ 1.4 billion) already occurred in 1996, and that multilateral constraints on the use of such credits might have limited any increase.

The sum total of export credits used over this period by the Participants amounts to nearly US\$ 28 billion. The United States was the largest user, with a total of US\$ 12.8 billion or 46 per cent, followed by Australia (US\$ 6.8 billion), the European Union (US\$ 4.4 billion) and Canada (US\$ 3.6 billion). The share of export credits in the total value of these countries' trade which benefited from them increased from 3.6 per cent in 1995 to 5.2 per cent in 1998. Again, even if 1997 and 1998 might be considered as atypical years due to the financial crises, the biggest increase in the role of export credits relative to total trade occurred in 1996. The largest share of trade facilitated by export credits is that of Australia with an average of 15 per cent during 1995 to 1998, followed by Canada (5.4 per cent) and the United States (5.2

per cent). By comparison, the share of export credits in EU trade is relatively small at less than 2 per cent on average during the period.

There is a subsidy element, but it is small

Evidence of the existence and even the size of export credits is not sufficient to draw conclusions about their impacts on trade. What determines the impact on markets is not only the existence, but their effects on decision-making. If the government export credit programmes offer the same terms as the private sector, then these officially supported export credits would have no distorting effects on world markets at all. In this case, the importer's decision-making would not be altered by the export credit, because the effective total cost of the transaction would be the same.

To determine the effect of export credits on commodity markets, the OECD has used existing methodologies to estimate the implications for each importers' total costs by determining the future payment stream which the importer perceives in using a particular export credit. This is then converted into present value using that importer's discount rate. The results of these calculations are the subsidy rates of the export credits, or the per cent by which the export credit reduces the present value cost of the traded commodity. Critical parameters in this calculation are the difference between the subsidised or guaranteed interest rate and the going market rate, the term of the loan, the down payment, the number of payments per year and the fee.

Calculation of the subsidy element of officially supported export credits for 1998 show that this is only a small part of the total value of these credits. For 1998, it amounted to US\$ 300 million, or 3.6 per cent of the total export credit value. Export credits used by the United States were good for a total subsidy element of US\$ 258 million. Thus, while export credit use by the United States is less than 50 per cent of the total, the subsidy equivalent of these US credits represent 85 per cent of the total by all Participants. This reflects a much higher subsidy rate of US credits – 6.6 per cent compared to a 3.6 per cent average for all users – which in turn is largely explained by the fact that the United States has a relatively large share of long term credits which is not offset by sufficiently high fees. While the precise estimates do vary if alternative supporting data are employed, the general conclusions that several export credit programmes do distort trade, that the United States is responsible for most of the distortion and that the level of distortion is relatively small, are robust.

The additionality argument

A frequent justification for export credits is that they may help developing countries overcome liquidity constraints in order to purchase necessary food where otherwise they would not have been able to import. The question whether export credits can create additional trade is difficult to answer. The definition of 'true' additionality must be limited to only those cases where the expansion in demand is global, with no reallocation in favour of any one country. In considering additionality under this definition, it matters whether a country's exports rise because it applies a policy which lowers its effective price (e.g. a move down along the world demand curve) or whether they grow because of stronger demand for imports (e.g. an outward shift in the world demand curve).

Export credit programmes may only create additionality in cases where they reduce or eliminate liquidity constraints in importing countries, thereby allowing these countries to make purchases which they otherwise would not have done *at any price*. But whether this will actually be the case will be hard to establish in practice. If an export credit allows a country to overcome systematic liquidity constraints and if food imports are a priority for the country, then additionality in a multilateral context is possible. But

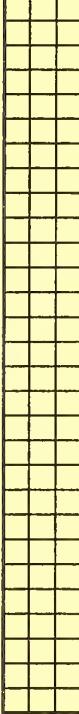
even in this case, such programmes might replace domestic production, future imports, or indeed commercial trade as private agents may be unable to compete with government financing. In short, the criteria for testing for additionality in a multilateral context are difficult to apply in practice.

Empirical results from evaluating the available data provide evidence against the justification on the grounds of additionality and call into question the very purpose of these programmes. First, the bulk of officially supported export credits during the 1995 to 1998 period was provided for trade between OECD countries, where binding liquidity constraints are unlikely. On average during the 1995 to 1998 period, 57 per cent of export credits were received by OECD importers, while net food importing developing countries received perhaps 9 per cent and the least developed countries less than 0.5 per cent. The second empirical result which undermines the justification that officially supported export credits may help developing country importers is that the estimated benefits to importers, were very small -- perhaps only sufficient to gain a competitive advantage for the exporter -- and unlikely to be of much help to countries which were truly in need of financial assistance and food.

Limited impacts on global markets of a discipline on export credits

In its work on export credits, the OECD has evaluated the market impacts of a ban on their use for wheat exports. These are in the commodity group which suffers the greatest incidence of distortion due to export credits in absolute and relative levels. These impacts are evaluated against baseline projections were their use was not accounted for. If, in contrast to these baseline projections, it is assumed that export credits continue to distort trade at beginning 1998 levels, the effect would be to raise US wheat prices slightly. The aggregate exports from the European Union are not substantially affected as the world prices remain below internal prices even taking the export credit into account. The net effects of the US and Canadian wheat export credit programmes on Canada are very small, whereas the wheat exports and prices in Australia are both reduced slightly as its own export credit programmes are less distorting than those of its competitors. Prices paid by importers and received by exporters not using export credits are slightly lower. The relatively minor consequences of this example highlight the small size of export credits relative to aggregate world markets and per unit prices.

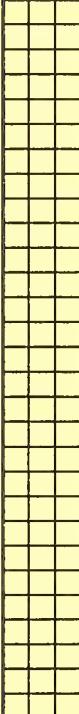
These results do not alter the conclusion that any individual transaction which receives an officially supported export credit on terms better than private financing is distorted, forcing competitors to lower prices or find alternative markets. Thus, realising an Arrangement putting disciplines on their use would help to eliminate associated subsidies and restrict such programmes to market-based principles. But this alone is insufficient if the goal is to end trade distorting policies. In the event of limits on the ability to use export credits to distort trade in their favour, countries can choose other policy options to artificially increase exports. For example, many countries retain substantial potential to directly subsidise exports within their URAA limits. Apart from export credits and export subsidies, there may also be other policy options which are not inconsistent with the URAA. Pricing schemes, food aid programmes or special authorities that may be granted by governments to organisations, such as state-trading enterprises, have the potential to distort trade. An Arrangement governing export credits in agriculture would restrict one among the menu of export competition policies. However, further disciplines on all other export enhancing policies would be required to effectively eliminate trade distorting export support.



The New Crop Insurance Reforms **Where We've Been;** **Where We're Going.**

*Kenneth D. Ackerman
Counsel: Olsson Frank and Weeda
Washington, D.C.*

*USDA Agricultural Outlook Forum
Presented February 22, 2001*

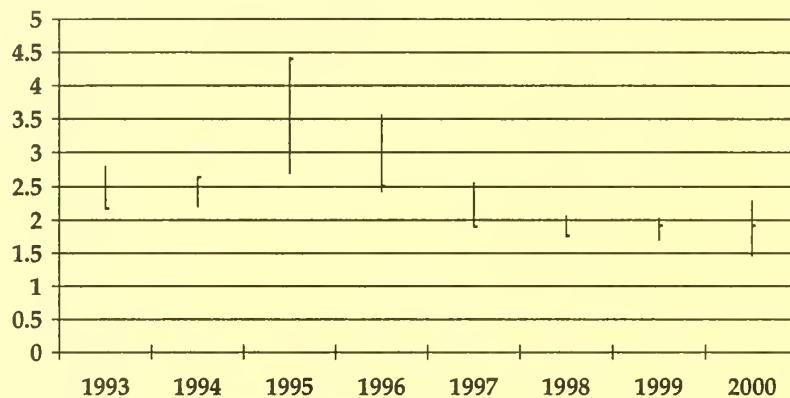


Recent History - Production loss

- 1988: Drought of the century
- 1989: Drought of the century II
- 1992: Hurricane Andrew
- 1993: Midwest flood/Southeast drought
- 1995: Cotton insects/California floods/wet spring
- 1996: North Carolina hurricanes/record winter
- 1997: Northern Plains floods
- 1998: El Nino, La Nina, South/Southeast drought
- 1999: Northeast drought, Hurricane Floyd, Hurricane Irene
- 2000: Southeast drought, quality problems
- 2001: ????

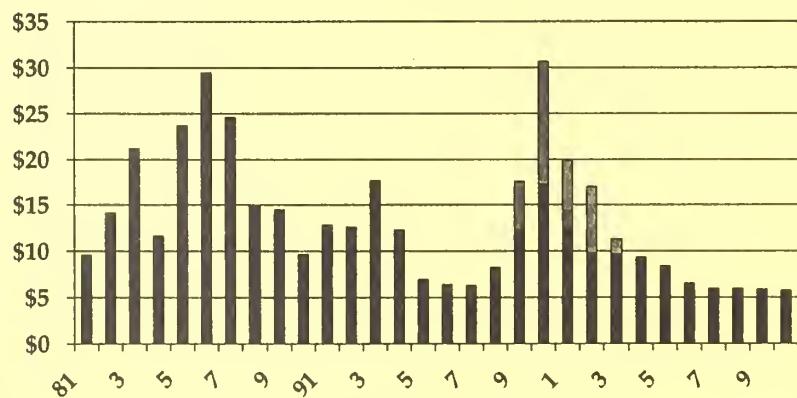
Recent history - crop price slump:

Corn price - \$ per bushel



Recent History: Federal policy

(Federal farm program spending and projections: \$ billions)



Risk Management -- Dealing with our limits of knowledge.

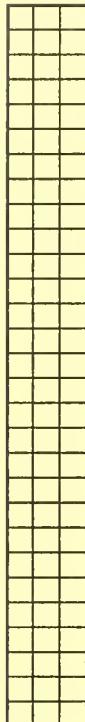
- “*The information you have is not the information you want;*
- “*The information you want is not the information you need;*
- “*The information you need is not the information you can obtain;*
- “*The information you can obtain costs more than you want to pay.”*

Against the Gods: The Remarkable Story of Risk

Peter L. Bernstein

For agriculture:

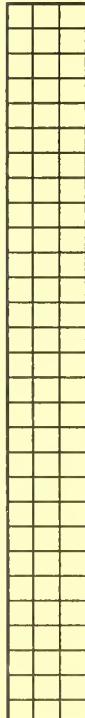
- **Don't know:**
 - The price;
 - The markets (mechanisms and dynamics);
 - Yields, weather, agronomics;
 - Changing government programs;
 - People - whom to trust;
 - Too often, own finances, costs, exposures.
- **Can know:**
 - Contracts (insurance, marketing, futures, forwards, credit);
 - Laws, regulations;
 - Neighbors - who you do trust;
 - Self, and own business facts.



Risk management vs. "safety net":

- Safety net:
Systems to protect society's most vulnerable members or against most dramatic widespread disasters;
- Risk management:
Tools for all farmers, including successful and profitable ones, as ongoing business practices to maintain success over time.

In agriculture, with high systemic risk and social policy content, the line is often blurred.



Risk management tools: Create knowledge and certainty-

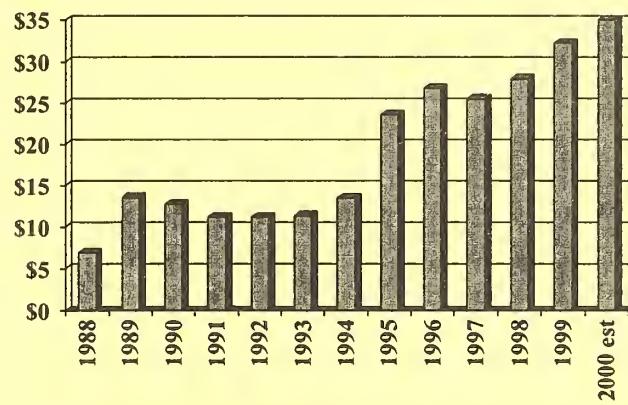
- Public
 - Crop insurance, NAP
 - LDPs
 - AMTA, farm programs
 - FSA loans
 - Disaster aid
 - Research & development
 - Outreach, education
- Private
 - Crop insurance
 - Forward contracting
 - Futures, options
 - Agronomic services
 - Farm credit system
 - Grower cooperatives
 - Newsletters, media
 - Grower organizations
 - Research and outreach

Seven Major Reforms Since 1993

- **1993 OBRA:** loss ratio target, "actuarial soundness."
- **1994 Reform Act:** replaced ad hoc disaster aid with expanded crop insurance, created CAT coverage.
- **1996 Farm Bill:** AMTA payments replaced price supports; crop insurance retained and expanded.
- **1996-8:** revenue insurance spread nationwide.
- **1998 Research Act:** "permanent funding" fix.
- **1998/1999 Emergency Bills:** premium discounts for buy-up coverage, income and crop loss assistance.
- **2000:** New Agricultural Risk Protection Act.

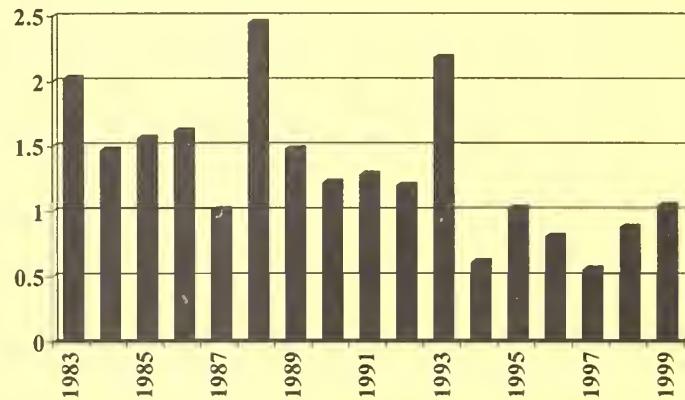
Impacts 1: Rising Program Participation

Crop Insurance Guarantees: US Total 1988-2000 (\$ billions)



Impacts 2: Actuarial Soundness

Crop Insurance Loss Ratios: 1983-1999



Impacts 3: More Products & Choices...

1993: One Choice MPCI

TODAY:

- Catastrophic coverage
- Buy-up coverage
- Limited buy-up
- Revenue insurance plans
 - Crop Revenue Coverage
 - Revenue Assurance
 - Group Risk Income Plan
 - Income Protection
 - AGR (Whole Farm) pilot
 - Specialty crop revenue
- Group Risk Plan
- Dairy Options Pilot Program
- 85% yield coverage
- Coverage Enhancement Option (CEO)
- New covered crops
 - Over 138 crops, representing large majority of American production
- Expansion of existing crops into new areas
- New nursery program
- so on, so on, so on...

Goal of 2000 Legislation-
To address key crop insurance concerns:

- Not enough farmers using it;
- Highest levels not affordable;
- Too many crops not covered;
- Parts of country considered under-served;
- Problems with multiple-year losses;
- Concerns about program integrity;
- NAP not working well;
- Many farmers not using RM tools generally.

- The Process: Highly bipartisan, highly interactive, wide consensus.

2000 ARPA:

- Invests \$8.2 billion over 5 years to make Federal crop insurance better;
- Makes buy-up coverage more affordable;
- Addresses the problem of multi-year losses;
- Expands research and development for new products and under-served areas through private incentives;
- Tightens program compliance;
- Improves NAP.

1. Improves the Basic Product:

- Higher premium subsidies for buy-ups
 - At all levels, at least as good as 30% discount;
- Authorizes AHP 60/60 adjustment;
- Makes NAP more like insurance
 - Eliminates the NAP area trigger;
 - Creates a \$100 fee per crop per county (same as CAT);

New crop insurance subsidy levels:

Percent of total premium paid by FCIC

	<u>Current APH</u>	<u>Current CRC</u>	<u>New law</u>
<u>50/100</u>	55%	42%	67%
<u>55/100</u>	46%	35%	64%
<u>65/100</u>	42%	32%	59%
<u>70/100</u>	32%	25%	59%
<u>75/100</u>	24%	18%	55%
<u>85/100</u>	13%	10%	38%

2. Encourages Expansion:

- Investment in private sector R&D:
 - \$65 mil.: reimbursements for new products:
 - \$10 mil. in 2001-2, \$15 mil. in 2003-5;
 - \$110 mil.: contracts for partnerships:
 - R&D for under-served areas and crops;
 - Studies of multi-year coverage, revenue insurance and cost of production;
 - Partnerships for new tools, weather data, so on;
 - \$20 mil. in 2001-3, \$25 mil. in 2004-5;
 - \$5 mil. ann. (\$25 mil. total) for under-served states;
 - \$175 million in new seed money altogether.
 - Open to all comers, not just crop insurance companies;
 - Bars direct research and development by RMA.

More on Expansion:

- Mandates new pilot approaches
 - Expands general pilot program authority;
 - Livestock pilot program;
 - Limited to \$75 mil. over 5 years;
 - (\$10 mil. in 2001-2, \$15 mil. in 2003, \$20 mil. in 2004-5);
 - Premium rate-reduction pilot program;
 - Cost-share pilot program in 10-15 states.
- Expands dairy options pilot program;
- Expands Risk Management education
 - \$5 mil. ann. regional through RMA;
 - \$5 mil. ann. national through CSREES;
- Expanded role for grower cooperatives;
- Expedites FCIC board review of new products
 - 120-day time limit; expanded Board membership.

3. Tightens Oversight:

- Limits double insurance and prevented planting;
- Mandates coordinated plan with Farm Service Agency-
 - Annual data reconciliation;
 - FSA monitoring assistance;
 - Consultation with FSA state committees;
- Funds data-mining effort-
 - Agents or loss adjusters representing losses 150% (or an appropriate percentage) above area average;
- Strengthens "good farming practices" requirement;
- Requires expert review of policies;
- Authorizes re-negotiation of SRA with participating companies: once during the 2001-2005 period.

What this means:

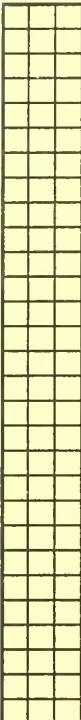
- For crop insurance program
 - Permanent heightened role;
- For producers
 - More choices, better service, more affordable prices;
- For RMA -- lots of work
 - New rules, new roles, new internal structures;
- For RMA and delivery partners
 - High expectations:
 - Integrity, professionalism, service.

For ag. businesses and groups -
Lots of opportunity:

- Larger overall market:
 - \$2.5 billion premium, \$35 billion in guarantees;
- High demand for new products;
 - *General rule*: whoever develops a new approach first usually dominates the new market;
- Roles for new players;
 - Cooperatives, product developers, RM combinations;
- Growing need for outreach;
- Impact of new technologies:
 - E-commerce, GPS, new trading systems.

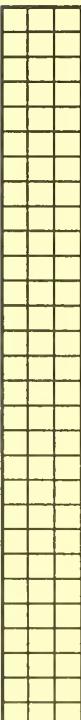
Roll-out so far:

- New funding: in place for 2001 crop year;
- New regulations being developed:
 - Product submissions, reimbursements;
 - Double insurance, prevented planting, general provisions;
- New contracts:
 - RFPs issued for general contractors,
 - Subcontracts and work-orders to follow;
 - Requests for public input:
 - Priorities for research and development;
 - Outreach efforts in under-served States;



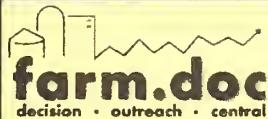
How will it work out? Three factors:

- Response of ag. community:
 - Will farmers continue to use new tools and products?
 - Will the private sector set up and provide the innovation?
- Response from Congress:
 - Will it provide a stable environment for the new system to work?
 - Program rules,
 - Fit with competing farm programs,
 - Political support;
- Priority decisions for new Administration:
 - Internal management, funding, new roles and structures;
 - Research and development priorities;
 - Future shape of risk management; role in Farm Bill debate.



Reasons to be optimistic: Strengths to build on-

- Strong customer base;
- Growing expertise throughout farm community;
- Sound product fundamentals proven by time - flexible framework for innovation.
- Strong acceptance from the farm community in times of change.



Putting The Risk Protection Act of 2000 to Work: Applied Marketing Strategies

Scott H. Irwin, Darrel L.
Good and Joao
Martines-Filho



<http://web.aces.uiuc.edu/farm.doc/>



Introduction

- Increased emphasis on marketing and risk management since passage of "Freedom to Farm" Act in 1996
 - Risk Protection Act of 2000 continued this trend
- Little research on actual performance
- Goal of AgMAS Project is to provide unbiased and rigorous performance evaluation of market advisory services
 - Majority of funding provided by USDA

Three Important Issues

- Market advisory service performance relative to an appropriate benchmark
- Predictability of market advisory service from year-to-year
- Active vs. passive marketing

AgMAS Data Collection

- Tracking about 25 advisory services since September 1994
- Paid subscriptions obtained for each service
- Recommendations recorded in "real-time"
- Data available on corn and soybeans for 1995-1999 crop years

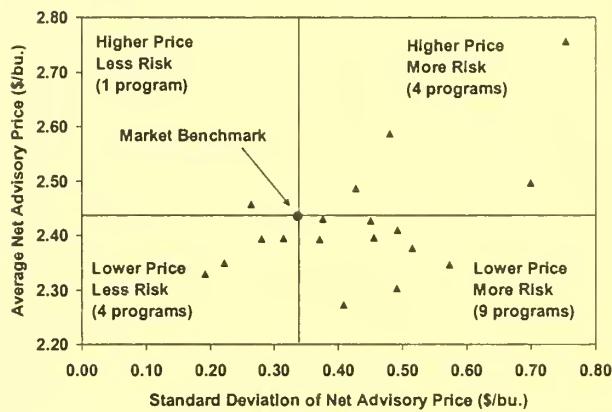
Simulation of Advisory Service Performance

- Simulation for central Illinois farm
- Two-year marketing window
- Net advisory prices are stated in harvest equivalent terms
- LDPs/MLGs included for 1998 and 1999 crops

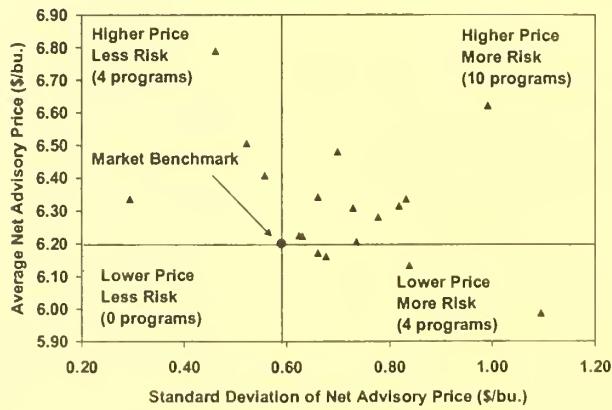
Average Program Returns Above Market Benchmark

	Corn (\$/bu.)	Soybeans (\$/bu.)	Revenue (\$/acre)
1995	+14	+33	15
1996	-2	+19	2
1997	-1	+10	1
1998	-7	-5	-6
1999	-3	+17	2
1995-99	0	+16	+3

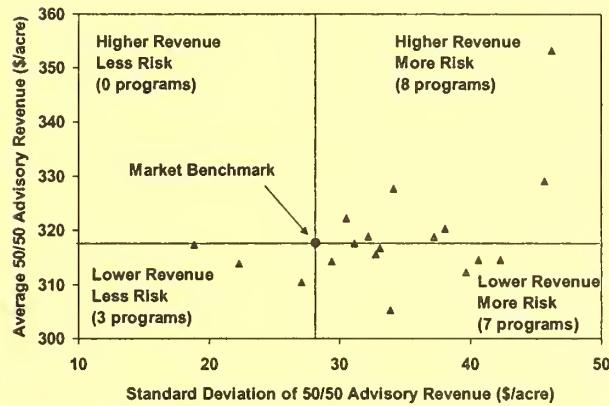
Pricing Performance and Risk Relative to Benchmark, Corn, 1995-1999



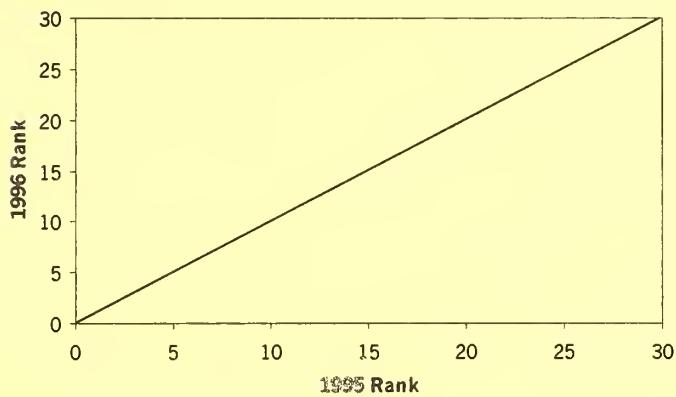
Pricing Performance and Risk Relative to Benchmark, Soybeans, 1995-1999



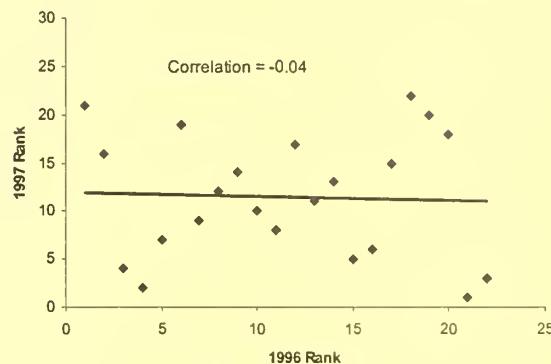
Pricing Performance and Risk Relative to Benchmark, 50/50 Revenue, 1995-1999



Perfect Predictability of Advisory Service Program Rank



Advisory Service Program Rank, Corn, 1996 vs. 1997



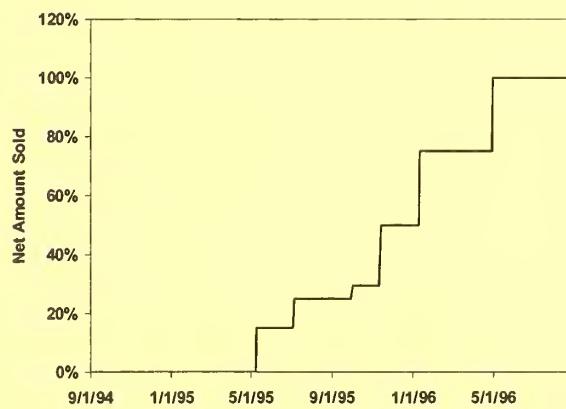
New Approach to Grain Marketing

- Two basic approaches
 - Active marketer: actively try to beat the average price offered by market
 - Passive marketer: satisfied with average price offered by market
- Consider a portfolio of the two approaches

Active Marketer Needs

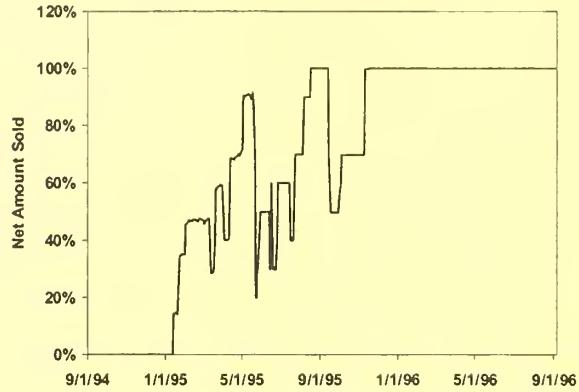
- Information
- Analysis
- Education
- Advisor

1995 Corn Marketing Profile for a "Scale Up" Program



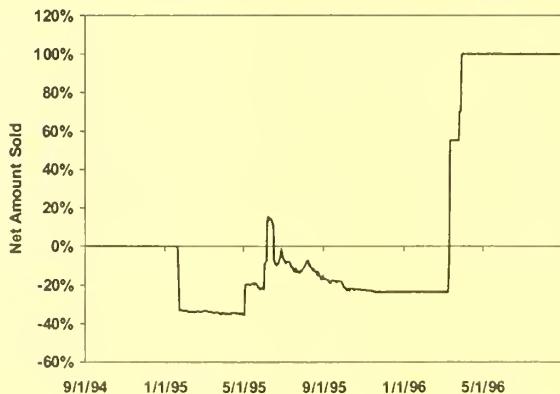
farm doc

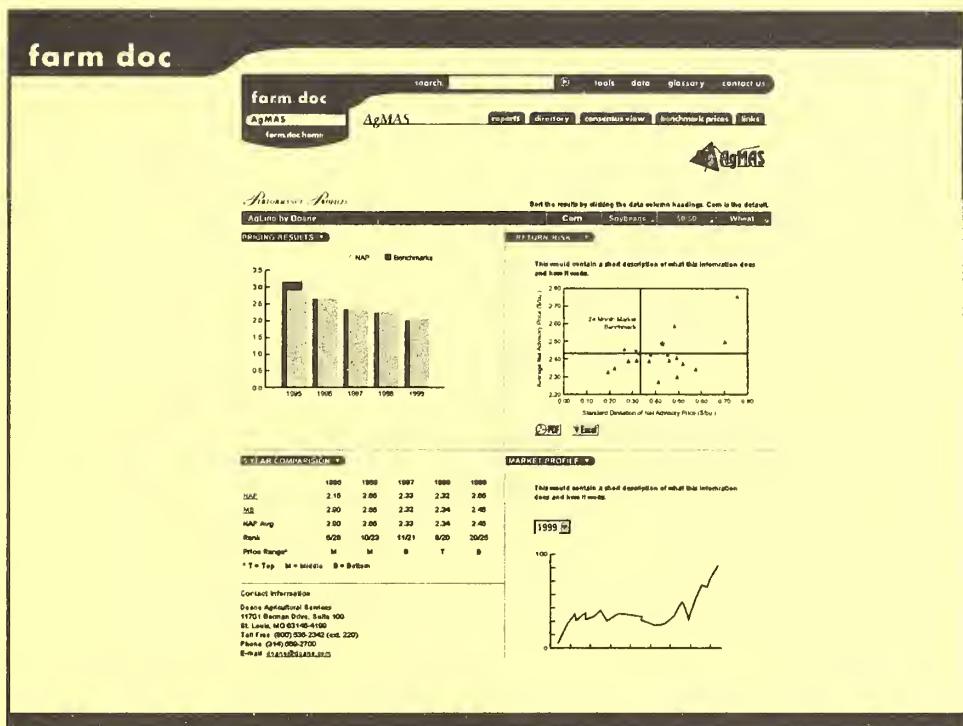
1995 Corn Marketing Profile for a “Selective Hedging” Program



farm doc

1995 Corn Marketing Profile for an “Aggressive” Program





farm doc

Select A Passive Strategy

- Indexing
 - Select an External Source to Trigger Sales
- Mechanical Do-It-Yourself
 - Price Equal Amounts Every Other Month for Two Years

Contacting the AgMAS Project

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1301 West Gregory Drive, University of
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Agricultural Outlook Forum / 2001

Crop Insurance Update

Arlington, Virginia

February 22, 2001



MICHAEL CONNEALY

PRESIDENT AND CEO

RURAL COMMUNITY INSURANCE SERVICES

ANOKA, MINNESOTA



ARP A / 2000

A - Agriculture

R - Risk

P - Protection

A - Act

Passed by Congress and signed by President Clinton during the 2000 Legislative session. Public Law 106-224 (106th Congress)



ARP A / 2000

QUICK OVERVIEW:

Invests about \$8.5 billion in additional spending over five years (2001 - 2005)

Makes “buy up” more affordable - equalizes the RMA premium subsidy for “revenue products”

Targets the 75% coverage level for maximum subsidy

Addresses multi-year loss problems

A R P A / 2000



QUICK OVERVIEW - CONTINUED

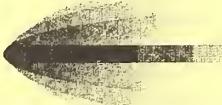
Expands authority / pilot programs for specialty crops

Mandates a livestock pilot

Specific and extensive focus on reducing fraud, waste and abuse

Addresses double coverage and prevented planting issues

A R P A / 2000



Coverage and premium subsidy - highlights

The out of pocket premium paid by the farmer is less than the previous legislation

The “target” coverage level for premium subsidy is increased from the 65% to the 75% coverage level

A R P A / 2000

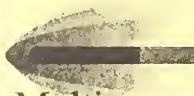


Balanced premium subsidy

Revenue coverage options such as crc and ra will now receive the same %age premium subsidy at a given level as the aph plan

80% and 85% coverage levels will be more widely available and usually a more expensive option for the farmer to purchase

A R P A / 2000



Multi-year loss problem - solution

Effective for 2001 spring crops an option for the buyer:

Plug any yield in the aph database that is below “60% of T” with “60% of T”

T is the transitional yield for a crop in a county usually used for new producers

New and higher guarantee based upon this process will result - premium may be higher

ARPA / 2000



EXAMPLE OF 2001 PURCHASE
OPTIONS FOR CORN AND SOYBEANS

CLINTON COUNTY, INDIANA

ASSUME 160 BUSHEL APH FOR CORN

ASSUME A \$2.05 PRICE FOR CORN

ASSUME 52 BUSHEL APH FOR BEANS

ASSUME A \$4.80 PRICE FOR BEANS

ASSUME OPTIONAL UNITS

ARPA / 2000



CORN / 2001

$160 \times 75\% \times \$2.05 = \246 - crc cost is \$7.53 per acre

+++++

$160 \times 75\% \times \$2.05 = \246 - aph cost is \$5.05 per acre

+++++

$160 \times 85\% \times \$2.05 = \279 - crc cost is \$18.72 per acre

+++++

$160 \times 85\% \times \$2.05 = \279 - aph cost is \$12.64 per acre

** $160 \times 75\% \times \$2.40 = \288 - crc cost is \$8.81 per acre

** $160 \times 85\% \times \$2.40 = \288 - crc cost is \$21.87 per acre

A R P A / 2000

SOYBEANS / 2001

$52 \times 75\% \times \$4.80 = \187 - crc cost is \$4.89 per acre

+++++

$52 \times 75\% \times \$4.80 = \187 - aph cost is \$3.33 per acre

+++++

$52 \times 85\% \times \$4.80 = \212 - crc cost is \$12.12 per acre

+++++

$52 \times 85\% \times \$4.80 = \212 - aph cost is \$8.32 per acre

+++++

** $52 \times 75\% \times \$5.26 = \205 - aph cost is \$3.65

** $52 \times 75\% \times \$4.60 = \179 - crc cost is \$4.68

A R P A / 2000



REDUCING FRAUD, WASTE AND ABUSE IN CROP INSURANCE (FWA)

+++++

1. COORDINATED RMA / FSA PLAN

2. RECONCILE RMA/FSA RECORDS YEARLY,
SUCH AS SHARES REPORTED OR LDP
RECORDS - VS - APH OR LOSS INFO

3. FSA COUNTY OFFICES CAN AND WILL
REPORT CASES OF SUSPECTED F/W/A



U.S.A / MPCI CAUSE OF LOSS

1. DROUGHT (37%)

2. EXCESS RAIN (33%)

3. HAIL (13%)

4. FREEZE (5%)

5. OTHER (12%)



A R P A / 2000

- ◆ END OF POWERPOINT PRESENTATION
- ◆ QUESTIONS OR COMMENTS??

ORGANIZING SMALL FARMERS TO EXPLOIT MARKETING OPPORTUNITIES

Johnny L. Flowers

Chairman, ALA-TOM Resource and Development Council

Introduction

- I live in Uniontown, Alabama, which is a small rural county located in what is known as the “Blackbelt.” This county is named as such for its heavy black clay Soils.
- In the 60's and 70's we used these soils to grow many farm crops and especially okra. Many families grew small acreages of okra and sold it to a local canning plant called King Pharr. This process provided supplementary income for small landowners as producers and plant employees.
- As time progressed, this plant closed and the small landowners lost their market and the farmers stopped farming produce as such.
- Our RC&D Council in 1996 took the initiative to look at this situation and interact trying to assist smaller farmers to become diversified and perhaps vertically integrated.
 - ✓ If they diversify their marketing, opportunities increased.
 - ✓ If they become Vertically Integrated, they can control the production, processing, and marketing, and thereby control the destiny of their operations.
- This was a new venture for our council so we developed partnerships with small farmers, community groups, state agencies, USDA and private foundations.
- As a result we have put together small farm cooperative in an effort to stabilize small farmers.
- Created a Distribution Network called Down South Food.
- This network serves as a distributing network for the following products produced by small farmers.
 - ✓ Pork
 - ✓ Beef
 - ✓ Goats
 - ✓ Rabbits
 - ✓ Vegetable Products

What Have We Learned?

As a council, we found out that this is a huge undertaking and it is going to take a lot of time, effort, and money to organize small farmers so that they can exploit marketing opportunities.

Therefore We Need To:

1. Continue to work as a council to organize small farmers.
2. Seek funding to jump start new farming groups.
3. Develop opportunities from the private sector to ensure that small farm cooperatives distribution networks and processing units become self-sustainable.

Summary

- Small farmers play a great part in the development of our county.
- Some of our best citizens grew up on small farms that were in production.
- We need to restore our small family farms and utilize the energy of youth in the production of food and fiber.
- I remember growing up on my grandfather's farm and the control I had over the farm animals. This gave me my leadership role as –
 - A consumer
 - A businessman
 - County Commissioner
 - And the list goes on and on
- I think that RC&D Councils across this nation can facilitate a process in collaboration with other partnerships to save the culture of small farmers.

Thank you very much

ORGANIZING SMALL FARMERS TO EXPLOIT MARKETING OPPORTUNITIES

Johnny L. Flowers, Chairman, ALA-TOM RC&D Council
And
Norman L. Burton, ALA-TOM RC&D Coordinator

INTRODUCTION

Fifty years ago, the small farmers in the central part of Alabama, an area known as the "Black Belt", were very active. These were farmers that provided the primary or secondary sources of income for their families through small-scale agriculture. The ALA-TOM Resource Conservation and Development (RC&D) Council's Small Farmer Initiative targeted 13 counties in and around Selma, Alabama. This area has a long history of producing vegetable crops such as okra and cucumbers, and producing hogs and beef cattle. Vegetables were sold to the Whitfield Pickle Company in Montgomery, Alabama and to the Campbell Soup and King Pharr canning plant that was located in Uniontown, Alabama. In the 1970's these plants closed, and the farmers that remained had to either sell their crops from the back of their trucks, or haul them to Birmingham, Alabama to the Farmers Market. Because of the increased costs of marketing, and the uncertainty of markets, only a few farmers remain, and these are elderly. A drive through these counties today is marked by idle and grown up farmland, idle workers, buildings in disrepair, and a farm infrastructure that has crumbled. As a result, many farmers and families are on public assistance or work for low wages for large farmers.

Not only did this decline affect the economic situation of the area, but also it had a serious negative impact on the social structure. Farming was a way of life that involved the entire family. Children developed a work ethic by being involved in the farm labor. Now children in the rural areas have no work, few role models, and too much time to become involved in negative influence such as drugs and alcohol. With no young people to continue the farms, the land and culture will be lost, and future generations will have no connection to the land and know what it takes to produce food.

The ALA-TOM RC&D Council revised its long-term plan in 1995, and identified the development of alternative agricultural enterprises for small farmers as a high priority item. In 1997, the Council, in collaboration with USDA-Natural Resources Conservation Service (NRCS) Outreach Program, developed its first grant proposals to start the Small Farmers Initiative. The goal of the Small Farmers Initiative is to help revitalize small farmers in the area as a means of economic development and to help recapture a culture and heritage. In order to do this, a program was begun to organize farmers, provide technical and financial assistance for production, and to develop markets for the products.

COOPERATIVES FORMED

The ALA-TOM RC&D Council received a \$75,000 grant from USDA- Rural Business and Cooperative Service to form small farmer cooperatives and to do value-added processing of products. Through this grant, four new limited resource and minority farmers' cooperatives were formed.

The cooperatives formed were:

- Southern Beef Growers Cooperative
- Southeastern Rabbit Cooperative
- West Alabama Retail Cooperative
- West Alabama Farmers Cooperative

The Southern Beef Growers Cooperative, Inc. is made up of six groups of African-American cattle farmers in seven counties. There are approximately 100 farmers in total membership. This cooperative is active, functioning, and working well. This cooperative has a mini feed lot and pasture area for producing beef as a cooperative. They are debt free, and have received funding from other USDA programs for developing the feedlot site, and to move into production of rabbits and goats. The beef is processed by Billings Meats in Gordo, Alabama; the only USDA inspected plant in Alabama. The marketing is done through Down South Foods.

The Southeastern Rabbit Cooperative, Inc. is active and has about 30 members, most of which are minority and limited resource producers. It is currently undertaking steps to increase membership. An interim processing facility has been established at Billings Meats and Down South Foods in marketing processed rabbits through a grocery broker. U.S. Congressman Earl Hilliard has taken interest in developing the commercial rabbit industry in Alabama, and has introduced legislation to have USDA provide free inspection to rabbit processing facilities. A grant was made from USDA-NRCS Outreach funds to develop a brood stock farm, which is supplying rabbits to new producers. Long-range plans are to construct and operate a new processing plant.

The West Alabama Retail Cooperative, Inc. has approximately 30 members that have bought shares at \$905 each for the cooperative. State Senator Charles Steel has made a \$50,000 grant to the cooperative. USDA-RD has made a \$50,000 RBEG grant to the Town of Thomaston for equipment for the cooperative. Robertson Banking Company is financing the project and is in the process of applying for a USDA-RD-Business and Industry Loan to build and operate a grocery store. This project has attracted statewide and national attention as a model for small rural towns to follow in getting needed businesses. USDA-NRCS also made a grant to the cooperative for the feasibility study, which was incorporated into the business plan. Auburn University's Rural Studio adopted this as a project. Four senior level students have constructed an outside display area as part of the store using \$20,000 in program grant funds. The students also developed preliminary planning and information for the project.

The West Alabama Farmers Cooperative, Inc. is now inactive. This cooperative did not have the leadership needed to make it successful. However, another cooperative has been established in the same area called the Selma/Dallas County Small Farmers Association, Inc. The ALA-TOM RC&D Council has made a grant to this cooperative for a plasticulture demonstration. This technology will allow them to be more successful in production. It features planting under plastic sheeting with trickle irrigation. This will allow farmers to produce even in dry weather. We are also working with them in developing markets in conjunction with the New North Florida Cooperative.

The New North Florida Cooperative, located in Marianna, Florida, has been established for a few years and has a successful market for collard greens. We began to network with this cooperative this year by being able to sell them a used refrigerated truck they desperately needed to transport their product to markets. This cooperative does value-added processing with slicing and packaging the greens making

them ready for the consumer. The New North Florida Cooperative has been able to establish markets with school systems in Florida and Georgia. We now have a relationship that allows Down South Foods and the New North Florida to cooperate in selling greens and meat products. Through this partnership and with another grant recently received, an extensive effort is underway to develop contracts with school system lunch programs in Alabama, Florida, and Georgia.

DOWN SOUTH FOODS FORMED

As mentioned previously, a marketing arm was created to help the cooperatives sell their products. In working with limited resource farmers and producers, it was found that most did not want to be involved in marketing, neither having the skills or inclination to do so. Most wanted to concentrate on production, leaving the marketing to others, with the assurance that if a crop was produced, it could and would be sold. From this, Down South Foods was born. The ALA-TOM RC&D Council hired a manager that had 20 plus years in the grocery business to manage the program.

Down South Foods grew from a portable refrigerated trailer to a facility located in a small business incubator. The name is trademarked, and a web site was developed – www.downsouthfood.com. Products produced by the member cooperatives received either a higher price or rebate based on sales. While Down South Foods has struggled with numerous problems, the plans are to spin it off as a private, minority owned business in the near future.

One early effort was to market southern produced meats and vegetables to African-Americans in large northern cities. This was done for about two years, with moderate success. There was and continues to be a strong demand, but market infrastructure and expensive transportation costs make it unprofitable. There still remains a possibility of developing this market.

PROGRAM DEVELOPMENT

In June 1998, the ALA-TOM RC&D Council partnered with the Alabama USDA-NRCS Outreach Program to further assistance to limited resource minority farmers and cooperatives. This “Jump Start” grant was used to purchase equipment for value-added processing, storage, and transportation. Revolving funds were established to purchase products from farmers for market development. Local and regional marketing by Down South Foods began through this grant. Funds were also provided to the Southern Beef Growers Cooperative to begin a cattle-finishing operation. Finished cattle were processed and the beef was sold as a “natural” product produced by black farmers.

Additional USDA-NRCS Outreach funds were obtained in May 1999. This “Midwest/Southeast Small Farm Product Exchange” project tested the ability to market southern products to the large Midwest cities such as Chicago, Milwaukee, and St. Louis. Although there is a strong demand for the products, problems with local marketing groups and the high transportation costs prevented this from being successful. Efforts then shifted to the further development of local markets. Funds were also used to assist the only USDA inspected meat slaughter and processing facility in Alabama. This program was the major reason this business did not close. This grant also provided the funds to establish the Down South Foods office, retail and storage facility in the Innovation Centre, a small business incubator near Selma, Alabama.

In May 1999, collaboration was begun with the New North Florida Cooperative in Marianna, Florida. This cooperative of black farmers is successful in marketing collard greens to school systems in Florida, and wanted to work with the Down South Foods in trying to sell to systems in Alabama. This

partnership also enabled Down South Foods to present some of its products to school systems. An example of this is a school system in Florida that has purchased a 50-50 mixture of ground goat meat and ground beef for their “chili mix”. The ALA-TOM RC&D also loaned money to the New North Florida Cooperative to purchase a refrigerated truck to haul products to market.

COOPERATIVE GROCERY STORE

One of the cooperatives formed was called the West Alabama Retail Cooperative, a group of citizens from the Thomaston, Alabama area who wanted a grocery store in their town. The town lost its grocery store in the early 1980's, and residents must travel a minimum of eight miles to the nearest store. Attempts by the Mayor, Patsy Sumrall, to attract a chain store had proven fruitless. It was decided that the only way the town was going to get a grocery store was for the local citizens to do it as a cooperative. While cooperative grocery stores have been built in large cities, none have been put in a rural area as a way of providing needed services. The ALA-TOM RC&D Council, with the help of USDA-Rural Cooperative Business Service, organized the people and helped them develop a business plan and a feasibility study. With the help of state grants and Alabama State RC&D funds, the cooperative began work on securing property and other funding. Auburn University's Rural Studio, a field practicum for architectural students, adopted this as a project. Four senior level students constructed an outdoor display area that also serves as a Farmers Market using their program funds. Additional grant funds from USDA and a private foundation have been secured for the store. An architect is currently designing the building, and a loan package using USDA-Rural Development funds is being developed with a local bank.

PROGRAM ENHANCEMENT

The ALA-TOM RC&D Council is now partnering with the Alabama Small Farm and Economic Development Center that is located at Tuskegee University. The Center provided funding through a cooperative agreement to promote the production and marketing of rabbits, meat goats, and small beef cattle operations. The funding went to the cooperatives that were established for these enterprises.

In October 2000, the Council received major funding for a project entitled “Alabama-West Florida Minority Cooperative Enhancement Initiative”. A grant was awarded to the Council by USDA- Rural Business Cooperative Service which has the following five purposes:

1. Establish a revolving loan fund for small farmers
2. Develop markets for farm products with school systems
3. Promote rabbit production and marketing
4. Develop small farm diversity demonstration
5. Enhance development of small town markets through the cooperative grocery store

Revolving Loan Fund – The Council is developing the program in conjunction with the West Alabama Bank – Marion Branch. The RC&D Council will have a Loan Committee that will approve loans, and the bank will operate the program. Targeted borrowers will be those who are credit worthy but can not meet all the guidelines of conventional bank loans or USDA loan programs. Grant funds will be used to guarantee the loans.

School Systems Markets – The New North Florida Cooperative has marketed farm products directly to school systems for three years. A partnership has been established in which their expertise will be used to develop markets in Alabama and Georgia. The primary crop has been collard greens, which

are processed and packaged by the cooperative. Attempts will be made to introduce other crops such as peas and butterbeans. Production enhancements such as irrigation systems are also needed to ensure that contracts can be met.

Promote Rabbit Production and Marketing – The development of grocery store markets by the use of a food broker will be a major thrust of this program. A small-scale processor has been established to meet the initial needs of the program.

Small Farm Diversification Demonstration – The Southern Beef Growers Cooperative will develop small scale vegetable plasticulture, meat goat, beef finishing, pasture poultry, and rabbit production operations on the cooperative farm. The demonstration will train other small farmers on how to diversify for survival. The products will be marketed locally, hopefully to develop a roadside farmers market for local producers.

Enhance Development of Small Town Markets through the Cooperative Grocery Store – Funds will be used to enhance the development of the store as an outlet for small farm products.

SUMMARY

The survival of the small farmer is not only an economic issue, but also a social issue. The lifestyle and work ethic created by small family farmers has almost been lost. It is important that children in rural areas have a way to make constructive use of their time. This will prevent many other problems associated with youth without meaningful activities. But the major problem facing small family farms is the marketing of the products. Through this program, and by joining together, farmers can succeed in today's world.

THE OUTLOOK FOR FOOD PRICES IN 2001

Annette L. Clauson
Agricultural Economist
Economic Research Service, USDA

Consumers continue to see only modest increases in food prices. The Consumer Price Index (CPI) for all food increased 2.3 percent in 2000, after increasing 2.1 percent in 1999 and 2.2 percent in 1998. Following three years of modest increases, the CPI for all food is expected to increase 2 to 2.5 percent in 2001. Food at home is projected to increase 2 to 2.5 percent while food away from home should increase 2.5 to 3 percent in 2001. This follows the baseline projection of an average growth rate of 2.3 percent for all food from 2000 to 2010. The projected food price increase compares to a 2.9-percent average rise expected in the CPI for all items, continuing a long-term trend of food prices increasing at slightly less than the general inflation rate. The CPI for all items is forecast to increase 3.0 percent in 2001.

Food price changes are a key variable determining what proportion of income consumers spend for food. In 1999, 10.4 percent of household disposable personal income went to pay for food, with 6.2 percent for food at home and 4.2 percent for food away from home. The downward trend in the proportion of household disposable personal income going toward food should continue into 2000 and 2001. In 2000, food at home sales are forecast to increase 5.1 percent, the largest increase since 1990 when sales increased 8.9 percent. Food away from home sales are forecast to increase 9.7 percent in 2000, the largest increase since 1987 when sales increased 10.9 percent. This indicates that food expenditures for all food in 2000 could increase to \$842.7 billion dollars, from \$788.6 billion dollars in 1999. Rising incomes in 2000 were chiefly responsible for the increased spending on food away from home, which could reach 48 percent of total food expenditures in 2000.

Higher energy prices did not translate into higher food prices in 2000. This was due largely to the fact that transportation and energy costs are fairly small components of the total food marketing bill, which is 80 cents for every dollar spent by consumers on food. Transportation costs are 4 cents and energy costs are 3.5 cents of the marketing bill. U.S. economic growth slowed markedly in the second half of 2000 with consumer spending also dropping. In 2001, consumer spending is projected to grow by 3 percent, but it will be held in check by a tight labor market, more limited credit, and higher energy prices.

In summarizing 2000 food price increases, a booming economy and large consumer demand led to higher retail prices for beef and pork; higher retail prices for fresh vegetables were due to reduced planted acreage and cooler than usual growing conditions; and large consumer demand for eggs in the fourth quarter led to higher retail prices. In summarizing 2000 food price decreases, fresh fruits were down largely because of the citrus crop rebounding in California and large supplies of apples and bananas; and the fats and oils index was down due to large supplies of oil on the world market and lower butter prices. The following discussions highlight 2000

supplies and prices and focus on expected CPI changes for 2001:

- **Meats.** U.S. red meat and poultry production continues to slowly increase, posting nearly a 1-percent gain in 2000. In 2001, the gain in meat production is expected to be lower as beef production declines 4 to 5 percent, reflecting several years of cattle herd reduction and near record heifer slaughter in 2000. In 2000, retail prices were higher for all meats, especially beef and pork. In 2001, cattle prices are expected to continue rising, with poultry, hog, and turkey producer prices expected to remain steady or decline. Continuing record large meat production, lackluster growth in exports, and a slowing domestic economy may pressure wholesale and retail prices downward.

Red meat and poultry exports rose 6 percent in 2000, the highest rate of growth since 1997, led by a double digit increase in broiler exports. However, in 2001, broiler exports are expected to rise less than 1 percent over last year. As a result, meat exports are expected to rise less than 0.5 percent, which would be the lowest since the decline in 1985. Pork exports are expected to rebound with a 3-percent increase after remaining about steady in 2000. U.S. meat exports are facing increased competition in slower growing world meat markets. Red meat imports in 1999 and 2000 rose about 10 percent each year, boosted by 17 and 18-percent increase in pork imports. In 2001, both pork and beef imports are expected to slow dramatically. Large stocks of corn and soybeans are expected to keep feed prices relatively low this year--barring any major weather problems in the 2001-growing season.

- **Beef and veal.** Beef production was up 1.5 percent in 2000, with prices for retail Choice beef setting a record \$3.06 a pound. The CPI for beef rose 6.4 percent in 2000 and is expected to increase 2 to 3 percent in 2001. The slowing economy is expected to dampen the demand for higher quality cuts of beef, which led to the record setting retail prices in 2000. Beef production in first-half 2001 continues to be revised upwards as more cattle are forced into feedlots, but second-half production estimates are forecast to be lower to compensate for larger first-half marketings. Fewer calves are likely to be placed on grazing programs due to poor pasture-range conditions in the South and West. Low grain prices and continued strong fed-cattle prices are encouraging large feedlot placements.

First-half 2001 beef production is likely to decline 2-3 percent from a year earlier, while second-half production may decline 5-9 percent. If forage conditions improve and encourage stronger heifer retention for breeding, 2001 production may decline even more. Continued large heifer slaughter and large heifer-on-feed inventories strongly suggest that expansion will be delayed until females are retained from this year's calf crop in second-half 2001, with beef production declining through 2003.

- **Pork.** Commercial pork production in 2001 is forecast at 19.25 billion pounds, up 2 percent from 2000. If the 2001 production is realized, it would be just 28 million pounds short of the record set in 1999. Retail pork prices rose a sharp 7.3 percent in 2000 with the 2001 CPI expected to increase slightly, up 1 to 2 percent. Per capita pork and competing meat consumption should stay about the same in 2001. It is expected that the slowing economy and sharply higher energy costs experienced by consumers this season

may temper the demand experienced by beef and pork last year.

The cautious production increase for this year could be attributed to concerns about a possible squeeze on slaughter capacity in late 2001, when most of the March-May pig crop comes to slaughter. With the larger pig crops, hog prices are expected to weaken and average in the \$40's per cwt this year, compared to nearly \$45 in 2000. Given the expected continuing low feed prices, producers' returns should support a year-over-year increase in the number of sows farrowing this year, suggesting a further rise in pork production in 2002. Over time, pork demand appears to have remained steady or increased slightly in response to higher quality, greater consistency, and larger cut size offered by the industry.

- **Other meats** increased 2.6 percent in 2000, and in 2001 prices are expected to increase 2 to 3 percent, slightly above forecasted beef and pork price increases. Other meats are highly processed food items (hot dogs, bologna, sausages) with their price changes influenced by the general inflation rate as well as the cost of the meat inputs.
- **Poultry.** The CPI for poultry increased 1.2 percent in 2000, with an increase of 1 to 2 percent expected in 2001. Broiler production in 2001 is forecast at 31.2 billion pounds, up slightly from 30.5 billion pounds in 2000. Responding to low prices through most of 2000, broiler producers have indicated that they will slow down production growth in 2001.

With strong exports to the three largest markets (Russia, Mexico, and China/Hong Kong) and a number of smaller markets, U.S. broiler exports surged to over 5 billion pounds in 2000. It is expected that exports should increase to over 5.5 billion pounds in 2001, because the economies of Russia and Mexico have both gained from rising world oil prices. The export expansion is expected to continue driving the poultry industry's ability to efficiently convert feed to meat, lowering its cost relative to both beef and pork. Additionally, demand in developing countries is expected to expand due to rising populations.

- **Fish and seafood.** The CPI for fish and seafood was up 2.8 percent in 2000, with an expected 2 to 3 percent increase in 2001. A strong U.S. economy in 2000 boosted away from home food demand as people traveled and ate out more. This was especially important for seafood, as a large percentage of seafood is consumed at restaurants. More than 50 percent of the fish and seafood consumed in the U.S. in 2000 came from imports, with another 20 to 25 percent from U.S. farm-raised production.

The U.S. has one of the world's largest fishing industries with year-round production. In the 1990's, U.S. per capita seafood consumption has remained flat, between 14.8 and 15.2 pounds of edible meat per year, with any increases in total domestic seafood consumption coming from population growth.

- **Eggs.** Retail egg prices increased 3.0 percent in 2000, with a 2 to 3 percent increase expected in 2001. Table egg production increased 2 percent in 2000, with hatching egg

production showing no increase. Retail egg prices were highest during the fourth quarter, reflecting seasonal demand and supplies that were only 2 percent above third quarter supplies. Per capita consumption is expected to reach 258.2 eggs in 2001, down slightly from 2000.

- **Dairy and related products** prices increased 0.7 percent in 2000, following a 5.8 percent increase in 1999. Strong consumer demand for dairy items, especially gourmet ice cream, cheese, and butterfat products is expected to continue this year with the CPI for dairy products expected to increase 1 to 2 percent in 2001. Growth in milk output is expected to ease slightly in 2001, after consumer demand outstripped supplies in 1998 and 1999.

Markets for dairy products have changed substantially in recent years. Retail sales are no longer the main outlet for most dairy products. Although most fluid milk is still sold at retail, cheese and butter are used mostly by away-from-home eating establishments or by makers of processed foods. Large shares of ice cream and fluid cream sales go to retail channels other than grocery stores. With spending for food away from home increasing, dairy products have benefitted. The strong restaurant and fast-food markets have increased cheese demand, as restaurants serve cheese for its versatility and flavor and fast-food chains include cheese, often paired with bacon on their sandwiches. Pizza sales and sales of commercially prepared entrees using cheese also continue to increase. Greater away-from-home eating has reduced fluid milk sales because people tend to order other beverages in restaurants.

- **Fats and oils** fell 0.6 percent in 2000, but is expected to increase 1 to 2 percent in 2001. The decrease in the 2000 index was largely due to lower retail prices for butter, which accounts for 31 percent of the fats and oils index. The remaining items contained in the fats and oils index are highly processed food items, with their price changes influenced by the general inflation rate in addition to U.S. and world supplies of vegetable oils.
- **Fresh fruits.** The 1999/2000 citrus crop rebounded in California, leading to a 3.0 percent decrease in the fresh fruit index in 2000. There were large supplies of other major fruits which also contributed to a decrease in the fresh fruits CPI. Apple production for 2000 was estimated at 10.3 billion pounds, down 1 percent from 1999. Grape production for 2000 totaled a record 7.31 million tons, up 17 percent from the 1999 crop. Peach production in 2000 was estimated at 2.52 billion pounds, up 4 percent from 1999 and 8 percent above 1998. Pear production, at 957,170 tons was down 6 percent from the 1999 crops. Through November 2000, banana imports were about 6 percent below 1999, with retail banana prices 2 percent higher in calendar 2000 than the year before. With the 2000/01 citrus crop and supplies of noncitrus fruits expected to be about the same as last year and continued strong U.S. consumer demand for fresh fruits, the CPI for fresh fruits is expected to increase 1 to 2 percent in 2001.
- **Fresh vegetables.** The CPI for fresh vegetables increased 4.8 percent in 2000 due to lower production and strong demand for fresh vegetables. Fresh-market vegetable harvested area was estimated at 2.1 million acres in 2000, about 1 percent below 1999, as

growers reduced acreage in response to financial losses caused by lower grower prices the year before. California, accounting for almost 50 percent of fresh market vegetable production in 2000, reduced acreage 3 percent. Per capita use of all vegetables and melons was expected to reach a record 459 pounds in 2000, up 2 percent from 1999 with most of the gain coming from processed products and potatoes. Fall 2000 U.S. potato production was a record 463 million cwt, up 7 percent from a year earlier.

A combination of reduced winter acreage, in the first quarter of 2001 and several bouts of sub-freezing weather in Florida has reduced supplies of fresh market vegetables and raised vegetable prices. Vegetables effected by the freeze include green peppers, snap beans, squash, eggplant, tomatoes, and cucumbers. Considering consumers' vegetable basket, low prices for leafy green and other cool season vegetables from California have helped offset higher prices for Florida vegetables. Also, potato retail prices, the most heavily-weighted item in the fresh vegetable CPI, are low this year due to a record-large fall crop. Although imports from Mexico and Central America countries will help fill some of the supply gaps, the impact of the Florida freeze on vegetable prices may continue until March 2001, when replanted crops boost supplies. In addition to the effects of the freeze, vegetable growers have indicated that they expect to harvest 2 percent fewer acres this winter. The Florida freeze and reduced planted acreage in 2001 should increase the fresh vegetable index another 4 to 6 percent in 2001.

Processed fruits and vegetables. Adequate supplies of most fruits and vegetables for processing limited the CPI increase for processed fruits and vegetables to 1.1 percent in 2000. Contract production of the four major processing vegetables (tomatoes, sweet corn, green peas, and snap beans) declined 13 percent in 2000. Virtually all of the decline is from tomatoes, with ample stocks dampening wholesale prices. Snap beans for processing increased 2 percent, contract production of sweet corn was unchanged from a year earlier, and green peas were up 8 percent. With lower supplies of processed vegetables and adequate supplies of frozen concentrate orange juice and other fruit supplies, the processed fruits and vegetables CPI is expected to increase 1 to 2 percent in 2001.

Sugar and sweets. Domestic sugar production for 1999/2000 was a record 9.0 million tons, more than 600,000 tons larger than the previous fiscal year. Low prices for soybeans, corn, wheat, barley, and rice reduced producer returns for these alternative crops, leading to increases in acreage for sugar crops. Relatively low inflation, along with increased production led to a CPI increase of only 1.1 percent in 2000.

Although demand for sugar and sugar-related products continues to increase, large U.S. sugar supplies are outpacing consumer demand. Per capita consumption of caloric sweeteners increased almost 20 pounds per person from 1990 to 2000. Some of the increase was due to a dramatic drop in inflation-adjusted retail prices from 33 cents per pound in 1990 to 26 cents per pound in 2000. Other key factors include increased spending for away-from-home eating and consumers' willingness to treat themselves. With large sugar supplies also expected in 2000/01, 8.5 million tons, the CPI for sugar and sweets is expected to increase a moderate 1 to 2 percent in 2001.

- **Cereal and bakery products** account for a large portion of the at-home food CPI-- almost 16 percent. With grain prices lower and inflation-related processing costs modest, the CPI for cereals and bakery products increased 1.8 percent in 2000. Most of the costs to produce cereal and bread products are for processing and marketing, more than 90 percent in most cases, leaving the farm ingredients a minor cost consideration. With competition among producers and consumer demand for bakery products expected to remain fairly strong, the CPI is forecast up 2 to 3 percent in 2001.
- **Nonalcoholic beverages.** The CPI for nonalcoholic beverages increased 2.6 percent in 2000 and is forecast to increase another 2 to 3 percent in 2001. Coffee and carbonated beverages are the two major components, accounting for 28 and 38 percent of the index. Retail prices were slightly higher in 2000 for ground roast coffee (up 1 percent) and soft drinks (up 4 percent).

World coffee production in 2000/01 is forecast at a record 108.7 million 60-kilogram bags, nearly 2 percent above last year's level and 570,000 bags above the previous record crop in 1998/99. Up to 80 percent of U.S. imports are arabica beans and 15-20 percent are robustas. The robustas go mainly to soluble (instant) coffee or are blended with arabicas. Recent near-record production in Brazil, the largest producer of arabica beans, should lead to larger U.S. stocks and continued moderate consumer prices.

- **Other foods.** Other miscellaneous prepared foods are highly processed and are largely affected by changes in the all-items CPI. These products include frozen dinners, pizzas, and precooked frozen meats. Competition both among these products, and from the away from home market, should continue to dampen retail price increases for items in this category. In 2000, the CPI for this category increased 2.0 percent and is expected to increase 2 to 3 percent in 2001.

**Changes in Food Price Indicators
1999 through 2001**

Items	Relative importance ^{1/}	1999	Final 2000	Forecast 2001
--Percent--				
All Food	100.0	2.1	2.3	2 to 2.5
Food Away From Home	37.2	2.5	2.4	2.5 to 3
Food at Home	62.8	1.9	2.3	2 to 2.5
Meats	10.8	0.5	5.9	2 to 3
Beef and Veal	4.8	2.0	6.4	2 to 3
Pork	3.8	-1.8	7.3	1 to 2
Other Meats	2.2	1.0	2.6	2 to 3
Poultry	3.2	0.5	1.2	1 to 2
Fish and Seafood	2.2	2.0	2.8	2 to 3
Eggs	0.8	-5.4	3.0	2 to 3
Dairy and related products	6.7	5.8	0.7	1 to 2
Fats and Oils	1.9	1.0	-0.6	1 to 2
Fruits and Vegetables	9.0	2.5	0.7	2 to 3
Fresh Fruits and Vegetables	6.9	2.8	0.7	3 to 4
Fresh Fruits	3.5	8.0	-3.0	1 to 2
Fresh Vegetables	3.4	-3.0	4.8	4 to 6
Processed Fruits & Vegetables	2.1	2.1	1.1	1 to 2
Sugar and Sweets	2.4	1.4	1.1	1 to 2
Cereals and Bakery Products	10.0	2.2	1.8	2 to 3
Nonalcoholic Beverages	7.0	1.0	2.6	2 to 3
Other Foods	8.5	2.1	2.0	2 to 3

^{1/} BLS estimated expenditure shares, December 1999.

Who Wins and Loses, and How Will E-Markets Affect Rural America?

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Overview

- Both Winners & Losers
 - ◆ Defining characteristics?
- Thoughts on policy & the rural business environment

Winners & Losers?

■ Access

- ◆ Rural internet penetration 39%,
up 75% from 12/98-8/00 (DOC)
- ◆ Wireless internet
- ◆ Digital divide?

Winners & Losers?

■ Understanding Market Segments

- ◆ Convenience
- ◆ Relationship
- ◆ Price
- ◆ Information
- ◆ Service & support
- ◆ Product performance

■ E-Market or not?

Winners & Losers?

- Proactive Pricing
 - ◆ Transparency threat
 - ◆ Price sensitivity
 - ◆ Which market mechanism?
 - Set price
 - Negotiation
 - Horizontal interaction

Winners & Losers?

- Attitude
 - ◆ “Human Connectedness”
 - ◆ Importance of relationships
 - ◆ Social capital & terms of trade
 - ◆ Organizational culture

Winners & Losers?

■ Strategic Fundamentals

- ◆ Best business model still wins
- ◆ Defining (or redefining) product
 - *More Encyclopedia Britannicas?*
- ◆ Will existing value chains fragment?
- ◆ Opportunity - Small firms/farms?

Thoughts on Policy

■ Emerging Frontiers

- ◆ Consumer privacy
- ◆ International law
- ◆ Intellectual property
- ◆ Fraud
- ◆ Taxation
- ◆ Concentration

■ US Rural Policy

